

Public Document Pack



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24 November 2015

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 3 December 2015 at 6.00 pm when the following business will be transacted.

Members of the public who require further information are asked to contact Jemma Duffield on (01304) 872305 or by e-mail at jemma.duffield@doover.gov.uk.

Yours sincerely

Chief Executive

Governance Committee Membership:

P G Heath (Chairman)
D Hannent (Vice-Chairman)
M J Holloway
S J Jones
A S Pollitt
G Rapley

AGENDA

1 **APOLOGIES**

To receive any apologies for absence.

2 **APPOINTMENT OF SUBSTITUTE MEMBERS**

To note appointments of Substitute Members.

3 **DECLARATIONS OF INTEREST** (Page 4)

To receive any declarations of interest from Members in respect of business to be

transacted on the agenda.

4 **MINUTES** (Pages 5 - 10)

To confirm the attached Minutes of the meeting of the Committee held on 22 September 2015.

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 11 - 32)

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

6 **GOVERNANCE COMMITTEE UPDATE** (Pages 33 - 50)

To consider the attached report from Grant Thornton.

7 **ANNUAL AUDIT LETTER** (Pages 51 - 56)

To consider the attached report of Grant Thornton.

8 **TREASURY MANAGEMENT QUARTER TWO REPORT 2015/16** (Pages 57 - 71)

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

9 **APPOINTMENT OF EXTERNAL AUDITORS - LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 AND THE LOCAL AUDIT (APPOINTING PERSON) REGULATIONS 2015** (Pages 72 - 79)

To consider the attached report of the Director of Governance.

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.
- 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 Jemma Duffield, Democratic Support Officer, telephone: (01304) 872305 or email: jemma.duffield@dover.gov.uk for details.

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

Declarations of Interest**Disclosable Pecuniary Interest (DPI)**

Where a Member has a new or registered 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.

Other Significant Interest (OSI)

Where a Member is declaring an 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.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

Minutes of the meeting of the **GOVERNANCE COMMITTEE** held at the Council Offices, Whitfield on Tuesday, 22 September 2015 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: D Hannent
S J Jones
A S Pollitt
G Rapley
M Rose

Also Present: Emily Hill, Grant Thornton
Lisa Robertson, Grant Thornton

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

18 APOLOGIES

An apology for absence was received from Councillor M J Holloway.

19 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that, in accordance with Council Procedure Rule 4, Councillor M Rose was appointed substitute for Councillor M J Holloway.

20 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

21 MINUTES

The Minutes of the meeting of the Committee held on 18 June 2015 were approved as a correct record and signed by the Chairman.

22 PARKING UPDATE

The Director of Environment and Corporate Assets presented the Parking Update Report to the Committee. At the meeting of the committee on 15 June 2015, Members resolved to receive an update detailing what improvements had been implemented with regard to Car Parking and PCNs.

RESOLVED: Members agreed to note the report.

23 MEMBER AND PUBLIC PARTICIPATION AT COMMITTEE MEETINGS

The Director of Governance presented the report to the Committee which set out the preferred approach for member and public participation at meetings of the Cabinet and Committees of the Council. An amended recommendation providing

more detail on the changes required as a result of the preferred approach was distributed to Members at the beginning of the meeting.

Having consulted with the Leader of the Council and the Leader of the Main Opposition Group after the Annual General Meeting of the Council in May 2015, a hybrid option was developed which would allow for Cabinet to receive the Notice of Forthcoming Key Decisions on its monthly agenda which would give it the opportunity to identify any future agenda items that would be the subject to pre-decision scrutiny. Members of the public would be able to speak to the item on the scrutiny agenda and Members would be able to ask questions at the scrutiny meeting if permitted to do so by the committee.

Councillors A S Pollitt and S J Jones believed the recommendation went against the spirit of the original Motion and that Option 4a would achieve a more democratic approach by allowing councillors the opportunity to participate at meetings of the Cabinet, to which members of the public were entitled to attend.

It was moved by Councillor A S Pollitt and duly seconded that Option 4a of Annex 1 of the report be recommended to Council.

On being put to the vote and with there being an equality of votes, the Chairman used his casting vote and the motion was LOST.

It was moved by Councillor D Hannent and duly seconded that the Governance Committee recommend to Council:

- (a) That Member and public participation be enhanced by the Executive including the Notice of Forthcoming Key Decisions on its monthly agenda and through this process identify future agenda items of public interest that would be subject to pre-scrutiny.
- (b) That Member and public participation be enhanced by including on the agenda of the appropriate Scrutiny Committee key decisions subject to pre-scrutiny, which would enable Members and the public to speak to the agenda item and Members, where permitted being able to ask questions at the scrutiny meeting.
- (c) That the Director of Governance develop and submit any necessary amendments to the text of the Constitution to a future meeting of the Governance Committee and the Council for approval.

RESOLVED: That it be recommended to Council that:

- (a) That Member and public participation be enhanced by the Executive including the Notice of Forthcoming Key Decisions on its monthly agenda and through this process identify future agenda items of public interest that would be subject to pre-scrutiny.
- (b) That Member and public participation be enhanced by including on the agenda of the appropriate Scrutiny Committee key decisions subject to pre-scrutiny, which would enable Members

and the public to speak to the agenda item and Members, where permitted being able to ask questions at the scrutiny meeting.

- (c) That the Director of Governance develop and submit any necessary amendments to the text of the Constitution to a future meeting of the Governance Committee and the Council for approval.

In accordance with Council Procedure Rule 18.5 Councillors A S Pollitt and S J Jones requested that their vote against the motion be recorded.

24 TREASURY MANAGEMENT YEAR END REPORT

The Director of Finance, Housing and Community introduced the Treasury Management Year End report to the Committee. The Committee was advised that the Council's in-house investments (approximately £6m or 32% of total investments) and investments with the investment managers, Investec (approximately £12.9m or 68% of total investments) outperformed their benchmark. The total interest received for the year was £276k, which meant that income for the year was £12k approx. better than the £264k budget.

Investec had withdrawn from the segregated fund market at the end of June 2015 and funds held with Investec were brought back in-house. The Council's Gilt holding of £1.9 million was transferred from Investec to Kings and Shaxson with the remainder of the Investec funds repaid in cash on 30 June 2015 totalling £11 million approx. This was held in the Council's Natwest SIBA account whilst the treasury management strategy was reviewed.

The Council had remained within its Treasury Management and Prudential Code guidelines during this period.

RESOLVED: That the report be received.

25 TREASURY MANAGEMENT QUARTER ONE REPORT 2015/16

The Director of Finance, Housing and Community introduced the Treasury Management report for Quarter One advising the Committee that the Council had remained within its Prudential Code guidelines during the period. As at 30 June 2015, the Council's in-house investment portfolio totalled £15.9m which included some of the funds from Investec following their withdrawal from the segregated fund market. As a result, deposit limits with the Council's operating bank were exceeded and had therefore breached the Treasury Management Strategy Statement.

The Director of Finance, Housing and Community would submit a revised Treasury Management Strategy to the next Full Council meeting for approval. This would enable the in-house team to manage all the Council's investments within the new counterparty limits.

The Council's investment return for the quarter was 0.52%, which outperformed the benchmark by 0.16%.

RESOLVED: That the report be received.

26 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Deputy Head of Audit Partnership (East Kent Audit Partnership) introduced the Quarterly Internal Audit Update Report. There had been seven audit reports undertaken during the period and were classified as providing assurance levels as set out below:

Substantial Assurance level:

- East Kent Services (EKS) - Housing Benefit Appeals
- East Kent Services (EKS) - Housing Benefit Discretionary Housing Payments

Reasonable Assurance level:

- EKS – PC and Laptop Controls
- EKS – ICT File Controls and Back-ups
- East Kent Housing (EKH) – Contract Standing Order Compliance
- Your Leisure

Concerns were raised by Members surrounding the Reasonable Assurance level awarded to Your Leisure and in particular the lack of documentation providing proof of the correct liability insurance. In response to a query from Councillor S J Jones who suggested inviting Your Leisure to a future meeting of the Governance Committee, the Director of Governance reminded Members that the remit and function of the Governance Committee was to ensure effective internal audit and internal control arrangements.

In addition, Housing Benefit Quarterly Testing was completed although an assurance level was not applicable.

There had been two follow-up reviews undertaken during the period:

- EKS – Customer Services
- EKS – ICT Change Controls

The assurance level for EKS – ICT Change Controls had been revised to provide a Reasonable Assurance level. Members were encouraged by this review and acknowledged the work EKS had put in to improve the service.

RESOLVED: That the report be noted.

27 AUDIT FINDINGS REPORT

Ms L Robertson of Grant Thornton presented the Audit Findings report which highlighted the key matters arising from the audit of financial statements for the year ended 31 March 2015.

A verbal update to the report was given to the Committee. The audit work on Valuations was now complete and the auditors were happy with their findings. The

audit review opinion on Cash Flow was still outstanding although this would be reported to the Director of Finance, Housing and Community within the week.

Grant Thornton were working with the Council to prepare for the earlier statutory deadline to sign off audit opinions, which was moving to 31 July in 2017/18. They were working together to identify ways to de-clutter the financial statements and how to make small step by step changes to ensure a transitional approach to the move of the sign off.

The opinion on the Council's Financial Statement and the conclusion on Value for Money were unqualified.

RESOLVED: That the report be noted.

28 FINANCIAL OUTTURN REPORT 2014/15

The Head of Finance, Housing and Community presented the Financial Outturn 2014/15 report to the Committee, advising Members that it needed to be considered in conjunction with the Statement of Accounts and the Audit Findings report.

The report set out an explanation of the outturn and financial standing of the Council, details of changes to the accounts and a condensed version of the information included in the accounts.

The key points of the report highlighted to Members were:

- The General Fund was £304k in surplus for the year and balances had been maintained at over £2.8m;
- No funds had been drawn down from the District Regeneration & Economic Development Reserve (which had been renamed 'HRA Transfer Reserve');
- HRA balances had been increased by over £2m (incl. earmarked);
- The capital and major revenues projects had stayed within budget, although resources for further projects remained limited;
- No new borrowing had been undertaken; the Council had complied with the Prudential Code and its own Treasury Management policies.

RESOLVED: That the report be received and noted.

29 STATEMENT OF ACCOUNTS

The Director of Finance, Housing and Community presented the report on the Statement of Accounts 2014/15.

The auditors, Grant Thornton, had awarded the Council an unqualified opinion in respect of the Statement of Accounts for 2014/15 and were pleased with the accounts and the work of the team considering the shortness of staff throughout the year. Members also thanked the officers for their work in compiling the accounts.

RESOLVED: (a) That the Statement of Accounts for 2014/15 be approved and signed by the Chairman of the Committee.

(b) That the Committee authorise the Chairman to sign the Letter of Representation.

The meeting ended at 7.06 pm.

Subject:	QUARTERLY INTERNAL AUDIT UPDATE REPORT
Meeting and Date:	Governance Committee – 3rd December 2015
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 30 th September 2015.
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 2015.

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.
- 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 Annex 2 to the EKAP report.
- 2.5 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 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 eight Internal Audit reports that have been completed during the period, of which three reviews were classified as providing Substantial Assurance, and two as Reasonable Assurance, whilst two reviews concluded a split assurance level which was partially limited. There was one additional assignment undertaken for which an assurance opinion is not applicable as it comprised of quarterly benefit testing.
- 2.8 In addition three follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the six-month period to 30th September 2015, 76.22 chargeable days were delivered against the planned target of 271.32, which equates to 28% 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 2015-16 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 2015-16 - Previously presented to and approved at the 26th March 2015 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



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

1. INTRODUCTION AND BACKGROUND

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2015.

2. SUMMARY OF REPORTS:

	Service / Topic	Assurance level
2.1	Dover Museum and VIC	Substantial
2.2	Environmental Protection Service Requests	Substantial
2.3	Bank Reconciliation	Substantial
2.4	Capital	Reasonable
2.5	Waste & Recycling Collection Bin Review	Reasonable
2.6	EK Human Resources; Sickness Absence, Leave & Flexi	Reasonable/Limited
2.7	East Kent Housing - Sheltered and Supported Housing	Limited
2.8	EKS – Quarterly Housing Benefit Testing (Quarter 1 of 2015-16)	Not Applicable

2.1 Dover Museum and VIC – Substantial Assurance.

2.1.1 Audit Scope

Dover Museum:

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's Museum is operated in an efficient and effective manner which safeguards Council assets (exhibits, income, stock, reputation etc.) and minimises risk.

Visitor Information Arrangements:

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's Visitor Information Services are operated in an efficient and effective manner which safeguards Council assets (income, stock, reputation etc.) and minimises risk.

2.1.2 Summary of Findings

The Museum and VIC are situated in the Market Square in Dover. The VIC provides an information and booking service (i.e. National Express) to the public. The Museum houses the Bronze Age Boat that is known throughout the world, and also provides and education and research facility for schools and colleges.

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

- A Sound system of control has been established over both the Dover Museum and visitor information arrangements.
- Working practices and established procedures adequately safeguard the Council's assets, income and stock.
- A revised working schedule and structure has been developed that will deliver the appropriate service delivery and customer support by the front of house team.

Scope for improvement was however identified in the following areas:

- There is a need to address the ongoing ICT issues that the staff are experiencing at the Museum and the VIC which impact upon service delivery to the public and day to day staff routines.
- With the redevelopment of the town centre about to commence it is hoped that this will bring added footfall to the town centre and hopefully to the Museum and if it has free entry, (this is currently being considered due to falling numbers of paying customers), then the customers may spend additional monies in the gift shop within the VIC part of the building. There is also the need to ensure that the Museum and the VIC are properly advertised on the back of the new development. This means that there needs to be put in place a forward thinking marketing programme (either controlled by the museum or included as part of the role carried out by the corporate marketing team) for when the new development opens that gets the message to the public on what the Museum and the VIC offers and its location.

2.2 Environmental Protection Service Requests – Substantial Assurance.

2.2.1 Audit Scope

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

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

2.2.2 Summary of Findings

The Authority provides to the public a complaints process for all aspects of environmental protection. This covers a wide range of issues (e.g. complaints concerning odours, noise and smoke). Pro-active steps are taken to try and address issues that impact on the public without the need of issuing simple cautions, prosecutions or seizing equipment. However, if these steps fail then the Authority does, and has, successfully proceeded to carrying out formal intervention.

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

- Procedures are in place for the recording, logging, and investigating of complaints and responding to them in a timely manner. These processes are working well.
- All inspections, incident reports and complaint documentation are completed and kept secure.
- Information is available to the public via various communication channels (internet, fact sheets etc.) on how to make complaints and the type of complaints that the authority will deal with and how they are actioned. In addition, a new on line reporting of complaints service has now been made available to the public for the last couple of months via the Dover District Council website.
- Publicity arrangements are in place to ensure that enforcement action is being communicated to the public to act as a deterrent.

Scope for improvement was however identified in the following areas:

- Procedure notes and supporting policies should be reviewed on a regular basis so that they are kept up to date and comply with current legislation.
- The Authority should review the East Kent Housing protocol for dealing with complaints and seek to get it formally approved, signed and implemented. This also needs to be reviewed on a regular basis to ensure that it is being complied with.

2.3 Bank Reconciliation – Reasonable Assurance.

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the bank reconciliation is calculated correctly.

2.3.2 Summary of Findings

The Council operates with seven different bank accounts each of which is used for specific functions (i.e. general bank account, account used for making housing benefit payments, and the main investment accounts etc.) The Council operates with two systems (AIM and e-financials) which are used as the cashbook and main accountancy system respectively.

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

- The bank reconciliation process has recently been adopted by the Accountant (Revenue) due to a vacant post. Despite this all of the expected controls were working effectively and there was adequate evidence in place to support the entries on the bank reconciliation. Sometimes the bank reconciliation is delayed for a number of months due to higher priority work however the Council will soon be appointing to the vacant post.

2.4 Capital – Reasonable Assurance.

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that there is an effective and efficient evaluation and approval procedure for capital projects and robust financial procedures to enable sufficient budgetary provision to be made available for their funding.

2.4.2 Summary of Findings

The Section 151 Officer is responsible for ensuring that the capital programme is prepared on an annual basis for consideration by the Executive before submission to the Council. The capital programme operates on a cash funded position with no new projects being approved to commence unless either the whole project cost can be financed through additional funding, sufficient capital receipts have been banked, or other savings in the programme have being identified.

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

- Budget monitoring processes are in place and managers are regularly consulted about their projects.
- The Capital Programme is put together through a robust procedure, involving CMT, Cabinet and the Council in order to ensure that funding is available and the projects that are added to the plan are the most appropriate. This means that the Capital and Special Works Project funding forms are no longer required.

Scope for improvement was however identified in the following areas:

- Procedure notes need to be reviewed to ensure that they comply with the Financial Procedure Rules in respect of post implementation reviews.
- CMT have yet to request a post implementation review and this has been noted in the last three audit reviews.

2.5 Waste & Recycling Collection Bin Review – Reasonable Assurance.

2.5.1 Audit Scope

To review the current processes and procedures in place concerning the supply, replacement and management of the waste collection bins, both residual and recycling including, food, and garden waste as well as plastics, paper and cans.

2.5.2 Summary of Findings

This review was carried out at the request of management in response to the increased number of bins being distributed free of charge and has looked at the processes in respect of replacement and new bin deliveries to the residents of both Dover and Shepway District Councils. There are significant numbers of replacement and new bins being delivered or repaired and there several factors that may be relevant. These include the age of the bins currently in use, the quality of the replacement bins and how the bins are handled by the contractor.

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

- The contractor will only carry out works if a M3 worksheet is completed.
- The contractor is using the M3 system as it is used to plan workloads (i.e. bulk collections and bin deliveries and repairs). There is the opportunity to work with the contractor to continue to develop the use of M3 and its codes as part of the reconciliation routines carried out by both the contractor and the Waste Team.
- Monthly reconciliation routines are carried out by the Waste Services Assistant to check the invoices submitted by the contractor are correct.

Scope for improvement was however identified in the following areas:

- Review the information requirements onto M3 from the Call Centre at Dover District Council (i.e. is a replacement bin required or a repair) and also ensure that the residents are given a meaningful reference number (i.e. M3 worksheet number) when making a request for a new or replacement bin.

2.6 EK Human Resources; Sickness Absence, Leave & Flexi – Reasonable/Limited Assurance.
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2.6.1 Audit Scope

To provide the three s.151 officers with assurance that staff absences are valid and authorised by management either in advance or in the case of sickness immediately after the event. To ensure that staff resources are adequately controlled and managed. Also to follow up on the previous audit report which concluded Limited Assurance.

2.6.2 Summary of Findings

There is a Service Level Agreement (SLA) in place which sets out the scope and responsibly placed with EKHR. The SLA puts more responsibility with individual managers and division heads for recording Sickness, Annual Leave and Flexi. It is therefore important to understand that this particular audit spans EKHR and right across all levels of management at Dover, Canterbury and Thanet councils.

The primary findings giving rise to this split assurance opinion of Reasonable Assurance on the system of internal controls in operation for flexi recording, and Limited Assurance on the system of internal controls in operation for sickness recording and annual leave recording; are as follows:

Flexi-leave: Reasonable

- The three councils have adopted a common flexi leave policy and the records examined showed a marked improvement from the previous audit review in

2011. Where possible the councils could promote a more consistent approach to time management and time recording which could help reduce any further errors.

Sickness Absence and Annual Leave: Limited

- The obligations upon EKHR set out in the SLA differ from the obligations recorded within the Absence Management Policy and Guidance;
- The management responses from the previous audit report completed in 2011 which placed Limited Assurance on the controls in place have not made the necessary improvements required to revise the assurance level;
- There were a number of errors when reviewing the documentation in relation to sickness and annual leave samples tested;
- A lack of specific clarification over a number of key operational issues within the Absence Management Policy and the Guidance for Managers to help managers through the process;
- Errors in the calculation of some annual leave entitlements; Errors in an EKHR document used to calculate some of the annual leave entitlements, namely conversion of days to hours for certain employees within certain salary scales at Dover and Thanet;
- There are not enough controls within the Dover online sickness recording system to ensure errors are detected and corrected; however
- There were many pockets of effective control, good governance and sound practice.

Management Response:

This audit has been carried out in an environment which is planned for change. The key issues in relation to the audit are:

- The KCC iTrent system did not deliver self-service as expected to enable management view of staff sickness, or the alternative of manager level reports.
- The EKHR SLA is known to be out of date and a review/consultation has been on-going since December 2014, which recommendations presented at EKSB in July and final details being discussed at EKSB in September. The SLA will then be rewritten to align with the proposed changes in service this will give clarity and a re-establishment of roles for clients and customers.

The new East Kent People Payroll and HR service is being launched in Autumn 2015 this will give managers real time view of absence and sickness levels to support management.

Workforce Information meetings are held with each Leadership Team which focusses on management of absence (amongst other items) where focus is required, where HR wish to escalate for leadership support and discussion around individual issues and where there are concerns of a wider nature. These are held at least quarterly with CMT/SMT/MT's to support understanding and management of absence at a senior level within the authorities. (EKHR Head of EK Human Resources).

2.7 Sheltered and Supported Housing – Limited Assurance.

2.7.1 Audit Scope

To review the organisation's Sheltered Housing arrangements at Dover, Shepway and Canterbury (there is no sheltered housing in Thanet), the audit will review the arrangements, controls and documentation surrounding the Scheme Managers' responsibilities to assist residents living in Sheltered Schemes promoting independence rather than creating dependency.

2.7.2 Summary of Findings

East Kent Housing (EKH) was appointed in April 2011 to manage Sheltered Housing arrangements at Dover, Shepway and Canterbury (there is no sheltered housing in Thanet).

The Management Agreements between EKH and the partner Councils sets out the requirement for EKH to agree a programme of service reviews, one of which is Sheltered Housing. EKH therefore undertook the service review in 2013/14, and identified a number of potential improvements or changes to be made in the way in which the service is delivered. EKH are therefore very self-aware of where they have come from, and where they want to get to. Management and officers should be commended for the service improvements already delivered, and for demonstrating an ongoing commitment for continuing to deliver improvements.

Whilst the objectives of this audit review are very different to those of the service review, they are nonetheless intended to assist EKH in moving even further forward with improving the service.

From the testing completed during this review, EKH are considered to currently be failing to meet the minimum criteria in three of the five core objectives of the Supporting People Quality Assessment Framework. Those being;

- Assessment and Support Planning;
- Security, Health and Safety; and
- Safeguarding and Protection from Abuse.

Under the agreement, failure to meet any of the minimum criteria as part of the Supporting People Quality Assessment Framework could result (however unlikely) in one or more of the following remedies being applied by Kent County Council against the individual councils who receive the Supporting People grant funding;

- a) An action plan being implemented to ensure that the level of service provided is improved.
- b) A reduction in the Supporting People grading leading to a reduction in the Supporting People funding.
- c) Financial penalties being applied due to failure to comply with the Supporting People contract.
- d) Termination of the contract.

The primary findings giving rise to the Limited assurance audit opinion in this area are as follows:

- Independent Living Plans (ILP's) were only up to date at 4 of the 12 schemes visited.

- Reporting arrangements for adult and child protection incidents need to be reviewed to ensure compliance with Data Protection regulations.
- Only 13 of the 24 Independent Living Managers (ILM's) have had a DBS (formerly CRB) check carried out within the last 3 years.
- As at 09 June 2015 the Fire Risk Assessments (FRA's) for the sites visited are past their suggested review dates.
- 80 of the 156 high risk recommendations listed on the Fire Risk Assessments for the schemes visited are past their suggested implementation dates.
- Only two of the forty five Support Workers in Enhanced Sheltered schemes have received safeguarding training.

Effective control was however evidenced in the following areas:

- ILM's are actively managed and supported through 1-2-1 meetings with their line managers and area team meetings.
- Management have in place an agreed and achievable action plan to bring about improvements in the service provided to residents in sheltered schemes.
- Residents in sheltered schemes are fully consulted on proposed changes to the service.
- ILM's are fully aware of the procedures for reporting adult or child protection issues at their sheltered schemes.

A limiting factor for EKH when making improvements in levels of service provided is that any proposed changes to services in both general needs and sheltered housing has to be sanctioned by each of the councils. A current example of this is surrounding the implementation of recommendations recorded on fire risk assessments. It was established that EKH is ready but unable to move forwards with the appointment of contractors to undertake the urgent work until approval has been granted by each Council. The process for and timescales taken at each Council varies according to their own internal processes. A meeting has been set up with all parties in June to determine how (at least the procurement aspects of this) may be streamlined if possible.

A sample of site visits was made which identified issues specific to that particular scheme. The necessary action to mitigate the risk of injury to residents at the sample of schemes visited was reported to management.

2.8 EK Services – Housing Benefit Quarterly Testing (Quarter 1 of 2015-16):

2.8.1 Background:

Over the course of 2015/16 financial year the East Kent Audit Partnership will be completing a sample check of Council Tax, Rent Allowance and Rent Rebate and Local Housing Allowance benefit claims.

2.8.2 Findings:

For the first quarter of 2015/16 financial year (April to June 2015) 40 claims including new and change of circumstances of each benefit type were selected by randomly selecting the various claims for verification.

A fail is categorised as an error that impacts on the benefit calculation. However, data quality errors are also shown but if they do not impact on the benefit calculation then for reporting purposes the claim will be recorded as a pass.

2.8.3 Audit Conclusion:

Forty benefit claims were checked and of these two (5%) had a financial error that impacted upon the benefit calculation.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, three follow up reviews have been completed of 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)	Contract Standing Order Compliance	Reasonable	Reasonable	H	7	H	2
				M	5	M	2
				L	0	L	0
b)	Car Parking Income and PCNs	Reasonable	Reasonable	H	3	H	2
				M	2	M	0
				L	4	L	0
c)	EK Services – Council Tax	Substantial	Substantial	H	0	H	0
				M	1	M	1
				L	1	L	0

- 3.2 Details of each of the individual high priority recommendations outstanding after follow-up are included at Annex 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: VAT, Community Safety, Housing Allocations, Employee Health and Safety, Public Health Burials, Grounds Maintenance, Licensing, Port Health, and Housing Repairs Maintenance and Void Management.

5.0 CHANGES TO THE AGREED AUDIT PLAN:

- 5.1 The 2015-16 Audit plan was agreed by Members at the meeting of this Committee on 26th March 2014.

- 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 Annex 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 2015, 76.22 chargeable days were delivered against the planned target of 271.32, which equates to 28% 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 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.

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 30 th September 2015 against the agreed 2015/16 Audit Plan.
Annex 4	EKAP Balanced Scorecard of Performance Indicators to 30 th September 2015.
Annex 5	Assurance statements

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1		
Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>CSO Compliance – September 2015:</i>		
Review CSOs/Procurement guide and amend EU financial thresholds as at January 2014.	<p>CSO's have been revised and approved by Council on 22 July 15. The Procurement Guide is currently being amended to reflect changes in legislation and CSO's.</p> <p>Proposed Completion Date: September 15</p> <p>Responsibility: Procurement Manager</p>	<p>Recommendation Outstanding – revision to Procurement Guide.</p> <p>Delay due to increase/un-scheduled workload – revised completion date - Oct 15.</p>
Email reminder to spending officers that contracts should be awarded on the basis of best value for money. Make reference to relevant section of CSOs.	<p>Global email reminder to be issued week ending 11 September 15. Financial Services Team reviewing Retrospective Order Reports monthly and requesting justification from Budget Managers where necessary. Procurement Manager will review responses and report where necessary to CMT. (See action 2 in Creditors Audit Final Report-June 2015).</p> <p>Proposed Completion Date: September 15</p> <p>Responsibility: Financial Services Supervisor</p>	<p>Recommendation outstanding – revision to Procurement Guide (to incorporate advice and guidance surrounding whole life costings) & global email to be issued once amended.</p> <p>Delay due to increase/un-scheduled workload – revised completion date - Oct 15.</p>

SUMMARY OF HIGH PRIORITY RECOMMENDATIONS OUTSTANDING OR IN PROGRESS AFTER FOLLOW-UP – ANNEX 1		
Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>Car Parking Income and PCNs – October 2015</i>		
As proposed previously there should be more than one officer responsible for carrying out the income reconciliation process, removing the responsibility from just one officer who works one week in two and ensuring that it is kept up to date.	Agreed Management Action Agreed Responsibility/Completion Date Head of Community Safety, Parking & CCTV - October 2015	This process is supervised by the Team Leader. A review is being undertaken of staffing within the team and this will be addressed as part of that process
Action must be taken to re-tender the provision of the car park machines maintenance or a waiver should be obtained to continue with the current provider. If a waiver is obtained the agreement must be updated to reflect the current requirements of the service.	Agreed Management Action Agreed Responsibility/Completion Date Head of Community Safety, Parking & CCTV - October 2015	This is in progress and it is hoped to be completed by April 2016.

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED				
Service	Reported to Committee	Level of Assurance	Management Action	Follow-up Action Due
Safeguarding Children and Vulnerable Groups	September 2014	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
East Kent Housing – Tenant Health and Safety	September 2014	Split Assurance	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
East Kent Housing – Leasehold Services	March 2015	Limited	On-going management action in progress to remedy the weaknesses identified.	Work-in-progress
EK Human Resources; Sickness Absence, Leave & Flexi	December 2015	Reasonable/ Limited	On-going management action in progress to remedy the weaknesses identified	Spring 2016
East Kent Housing - Sheltered and Supported Housing	December 2015	Limited	On-going management action in progress to remedy the weaknesses identified	Spring 2016

PROGRESS AGAINST THE AGREED 2015-16 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09- 2015	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	5	5	0.30	Finalised - Reasonable
Bank Reconciliation	5	5	0.42	Finalised - Substantial
VAT	10	10	10.96	Work-in-progress
RESIDUAL HOUSING SYSTEMS:				
Housing Allocations	10	10	0.17	Work-in-progress
GOVERNANCE RELATED:				
Partnerships and Shared Service Monitoring	10	10	0.24	Work-in-progress
Equality & Diversity	10	10	0	Quarter 4 – Brief issued
Risk Management	10	10	0.17	Work-in-progress
Corporate Advice/CMT	2	2	2.26	Work-in-Progress throughout 2015-16
s.151 Meetings and support	9	9	6.5	Work-in-Progress throughout 2015-16
Governance Committee Meetings and Reports	12	12	7.01	Work-in-Progress throughout 2015-16
2016-17 Audit Plan Preparation and Meetings	9	9	0	Quarter 4
CONTRACT RELATED:				
Procurement	10	10	0	Quarter 4 – Brief issued
SERVICE LEVEL:				
Community Safety	10	10	1.71	Work-in-progress
Dog Warden and Street Scene Enforcement	10	10	0	Quarter 4 – Brief issued
Electoral Registration and Election Management	10	10	0	Quarter 4 – Brief issued
Environmental Protection Service Requests	8	8	1.66	Finalised - Substantial
Public Health Burials	6	6	0.28	Work-in-progress
Port Health	10	10	0.17	Work-in-progress
Health & Safety at Work	10	10	0.17	Work-in-progress

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Licensing	10	10	0.17	Work-in-progress
Printing & Post	7	7	0	Quarter 4 – Brief issued
Grounds Maintenance	10	10	0.82	Work-in-progress
Dover Museum and VIC	10	10	16.84	Finalised - Substantial
Commercial Properties and Concessions	10	10	0.17	Quarter 4 – Brief issued
Building Control	10	10	0	Quarter 4 – brief issued
Your Leisure	10	10	9.64	Finalised - Reasonable
OTHER				
Liaison with External Auditors	2	2	0	Work-in-Progress throughout 2015-16
Follow-up Work	15	15	3.06	Work-in-Progress throughout 2015-16
FINALISATION OF 2014-15- AUDITS				
Absence Management	5		3.40	Finalised - Limited
Car Parking and PCNs			0.39	Finalised - Reasonable
Creditors and CIS			4.11	Finalised – Substantial
Income			0.20	Finalised - Reasonable
Days under delivered in 2014-15	0	1.32	0	Completed
EK HUMAN RESOURCES				
Recruitment	5	5	0	Work-in-Progress
Payroll	5	5	0	Work-in-Progress
Employee Health & Safety	5	5	5.40	Work-in-Progress
TOTAL	270	271.32	76.22	28% as at 30th September 2015

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Planned Work:				
Audit Ctte/EA Liaison/Follow-up	6	6	7.75	Work-in-Progress throughout 2015-16
Sheltered Housing & Supporting People	34	32.64	32.64	Finalised - Limited
Housing Repairs, Maintenance and Void Management	40	41.36	39.94	Work-in-Progress
<u>Finalisation of 2015-16 Audits:</u>				
Days over delivered in 2015-16	0	-0.34	0	Completed
Unplanned – CSO Compliance	0	0	5.53	Finalised - Reasonable
Total	80	79.66	85.86	108% at 30-09-2015
Additional days purchased with EKAP saving from 2014-15	7.31	7.31	7.31	Utilised to part fund the audit of repairs and maintenance

EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
Planned Work:				
Housing Benefit Appeals	15	5	4.8	Finalised – Substantial
Housing Benefit Discretionary Housing Payments	15	8	7.9	Finalised – Substantial
Business Rate Reliefs	15	15	0.21	Quarter 4
Business Rate Credits	15	15	0.23	Quarter 4
Debtors	15	15	0.34	Quarter 4
ICT – PCI DSS	12	14	4.75	Work in progress
ICT – Management & Finance	12	13	0	Quarter 4
ICT – Disaster Recovery	12	13	0.14	Quarter 4
Corporate / Committee /follow up	9	12.21	6.06	Work in progress throughout 2015-16

Review	Original Planned Days	Revised Planned Days	Actual days to 30-09-2015	Status and Assurance Level
DDC / TDC Quarterly Housing Benefit Testing	40	40	21.21	Work in progress throughout 2015-16
Finalisation of 2014-15 work-in-progress	0	0	1.48	Completed
Days over delivered in 2014-15	-9.79	0	0	Allocated
Total	150.21	150.21	47.12	31% at 30-09-2015

BALANCED SCORECARD – QUARTER 2

INTERNAL PROCESSES PERSPECTIVE:			FINANCIAL PERSPECTIVE:		
	2015-16 Actual	Target		2015-16 Actual	Target
	Quarter 2		Reported Annually		
Chargeable as % of available days	91%	80%	• Cost per Audit Day	£	£321.33
Chargeable days as % of planned days			• Direct Costs (Under EKAP management)	£	£412,450
CCC	70%	50%	• Indirect Costs (Recharges from Host)	£	£11,700
DDC	28%	50%	• ‘Unplanned Income’	£	Zero
SDC	54%	50%	• Total EKAP cost	£	£424,150
TDC	66%	50%			
EKS	31%	50%			
EKH	108%	50%			
Overall	54%	50%			
Follow up/ Progress Reviews;					
• Issued	27	-			
• Not yet due	38	-			
• Now due for Follow Up	32	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Partial	Full			

BALANCED SCORECARD – QUARTER 2

<u>CUSTOMER PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	<u>2015-16 Actual</u>	<u>Target</u>
	Quarter 2		Quarter 1		
Number of Satisfaction Questionnaires Issued;	41		Percentage of staff qualified to relevant technician level	88%	75%
Number of completed questionnaires received back;	9		Percentage of staff holding a relevant higher level qualification	43%	32%
	= 22%		Percentage of staff studying for a relevant professional qualification	25%	13%
Percentage of Customers who felt that;			Number of days technical training per FTE	0.96	3.5
• Interviews were conducted in a professional manner	100%	100%	Percentage of staff meeting formal CPD requirements	43%	32%
• The audit report was 'Good' or better	100%	100%			
• That the audit was worthwhile.	100%	100%			

AUDIT ASSURANCE

Definition of Audit Assurance Statements

Substantial Assurance

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

Reasonable Assurance

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

Limited Assurance

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

No Assurance

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



Grant Thornton

Dover District Council

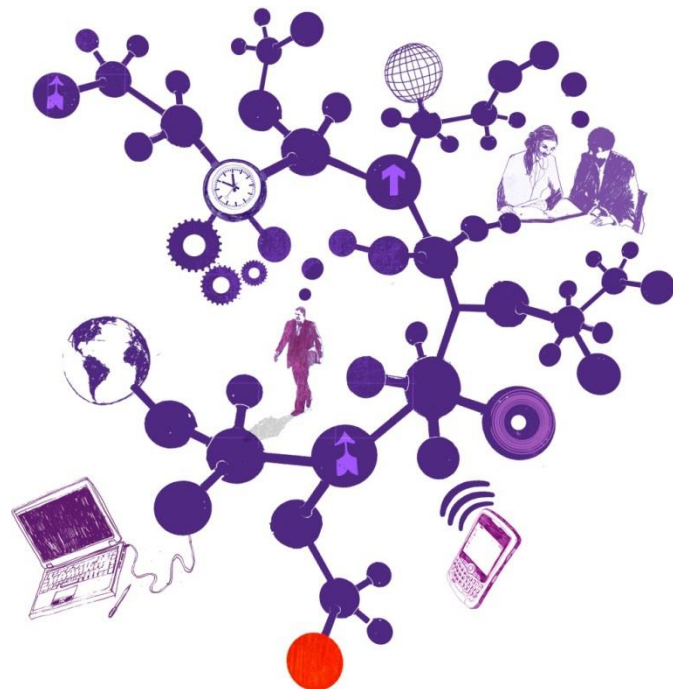
Progress report and emerging issues update

Year ended 31 March 2016

December 2015

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

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Introduction

This paper provides the Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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

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Progress at December 2015

Work	Planned date	Complete?	Comments
2015/16 Fee letter We are required to issue a planned fee letter for 2015/16 by the end of April 2015.	April 2015	Yes	<p>The Commission published the work programme and scales of fees for the audit of the 2015/16 accounts of principal audited bodies, including the lists of fees for individual bodies. The scale audit fees for Councils reduced by 25%. There are no changes to the work programme for 2015/16.</p> <p>The fee letter confirmed the 2015/16 scale audit fees as £53,685.</p> <p>After the Commission's closure, the 2015/16 work programme and fees is accessible from the PSAA website.</p>
2015/16 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015/16 financial statements.	March 2016	Not yet due	Our audit plan will be presented to the March Governance Committee.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • 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. 	Phase 1 – Planning and risk assessment: December 2015 Phase 2 – Early testing and VFM work: February – March 2016	Not yet due Not yet due	<p>Phase 1 of our interim audit will inform our Audit Plan to be presented to the Committee in March 2016.</p> <p>Phase 2 will focus on early testing to facilitate an earlier conclusion of the final accounts audit.</p>

Progress at December 2015

Work	Planned date	Complete ?	Comments
2015-16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	July 2016	Not yet due	The findings from this work will be presented within our Audit Findings Report, presented to the Committee in September 2016.
Value for Money (VfM) conclusion The scope of our work to inform the 2015/16 VfM conclusion has recently been revised by the National Audit Office (NAO), and requires auditors to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. The auditor guidance was finalised in November and is available on the NAO website. guidance is available, we will carry out an initial risk assessment to determine our approach and report this in our audit plan.	Initial risk assessment: January 2016 Field work: February – March 2016 Final update and conclusion: August 2016	Not yet due	We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan in March 2016. The findings from this work will be presented within our Audit Findings Report, presented to the Committee in September 2016.
2014/15 grant claims The Housing Benefit claim is due for completion under the Audit Commission contract. In addition we have been engaged to complete: <ul style="list-style-type: none"> • Pooling of capital receipts return • HCA compliance audit 	August - November 2015	Complete	As at 24 November, these are on track for certification by relevant deadlines. Our findings will be reported in our annual certification letter to be presented to the next Committee.

Emerging issues and developments

Code of Audit Practice

Audit and accounting issues

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the VfM conclusion).

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which has been finalised in November 2015 and is available on the NAO website. Under the final guidance auditor's are required to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

The new guidance will be applicable to the 2015/16 audit.

New local audit framework – length of transitional period

Audit and accounting issues
<p>The implementation of the new local audit framework under the Local Audit and Accountability Act 2014 (the 2014 Act) is subject to transitional arrangements which include measures taken to ensure that the audit contracts originally let by the Audit Commission can continue under saved duties and powers that are exercised on behalf of the Secretary of State by Public Sector Audit Appointments Ltd (PSAA).</p> <p>The existing contracts could be extended by one, two or three by decision of the relevant government departments which determines when local appointment should come into effect and so when the transitional period should come to an end.</p> <p>The Department of Communities and Local Government (DCLG) have announced the Secretary of State’s decision about the timetable for local government bodies.</p> <p>Smaller local government bodies (such as parish and town councils) will move to local appointment for the reviews of 2017/18 annual returns. We understand that progress is being made towards establishing a sector-led body to procure and appoint auditors on behalf of smaller authorities. Larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies, will move to local appointment for the audits of the 2018/19 accounts, extending the current contract by one year. At present, it is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, but the longer timescale allows more time to establish such arrangements.</p> <p>CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.</p>

Knowing the Ropes – Audit Committee Effectiveness Review

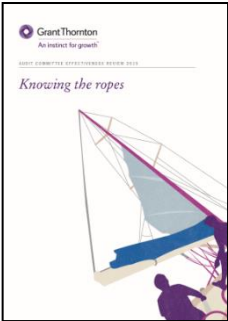
Audit and accounting issues

This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation’s governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee. Our key messages are summarised below.

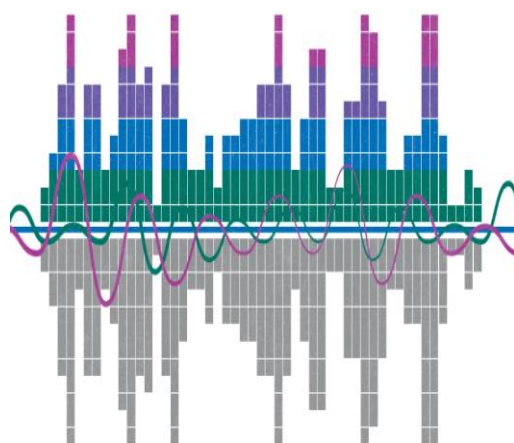


Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager.

Growing healthy communities: The Health and Wellbeing index

Grant Thornton market insight

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Hard copies of our report are available from your Engagement Lead and Audit Manager.



Making devolution work: A practical guide for local leaders

Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

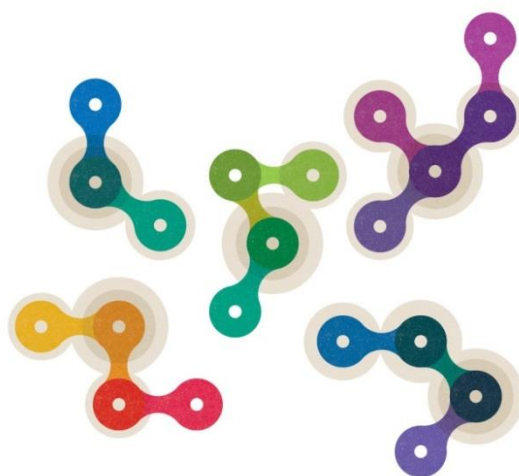
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government?

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager.



Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.



Further details are available from your Engagement Lead and Audit Manager.

George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their Local Enterprise Partnerships, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Improving efficiency of council tax collection

Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.



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The Annual Audit Letter for Dover District Council

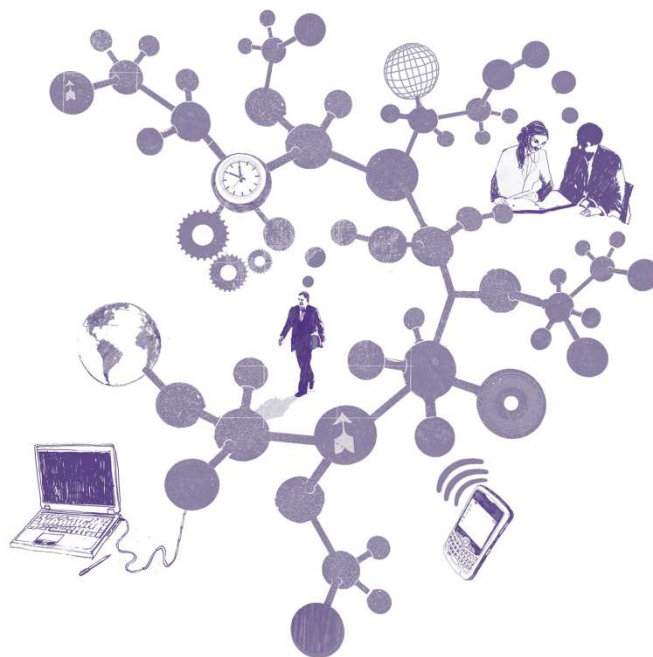
Year ended 31 March 2015

October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Dover District Council (the Council) for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2015 to the Governance Committee. The key messages reported were:</p> <ul style="list-style-type: none">• the Council produced a good set of accounts supported by working papers;• staff responded quickly and helpfully to queries;• the accounts were adjusted to reflect a post balance sheet event in relation to a recent case that has set a precedent for a reduction in the rateable value of large purpose built GP surgeries/health centres back to 2005. This resulted in an increase of £1.3m to provisions changes to government grants, and corresponding adjustments across the financial statements; and• a number of other adjustments to the financial statements to improve the presentation and disclosures of the financial statements. <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>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 2015.</p>
Certification of housing benefit grant claim	<p>We are currently completing our work to certify the Council's 2014/15 housing benefit grant claim by the 30 November 2015 deadline. We will report our findings on the Annual Certification Report to Governance Committee in December 2015.</p>
Audit fee	<p>Our fee for 2014/15 was £71,580, excluding VAT which was in line with our planned fee for the year and prior year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Looking ahead, the statutory deadline for sign off audit opinions moves forward to 31 July in 2017/18. The Council will need to produce draft statements by 31 May.</p> <p>Recommendation: The Council should consider arrangements required to bring forward the timescale for closure of the financial statements, in readiness for statutory early closure in 2017/18.</p>	High	<p>The Council will look at the feasibility of setting earlier closure dates for 2015/16 as a trial.</p> <p>Responsible office: Director of Finance, Housing and Community Due date: Autumn 2015</p>
2.	<p>Our audit review identified a need to review the underlying information for home improvement loans to ensure that records are fully up to date such as timing of grants and loans.</p> <p>Recommendation: The Council should undertake a review of the underlying home improvement loan records to ensure they provide comprehensive supporting information.</p>	Medium	<p>Initial work has been undertaken on the home improvement loan records reconciliation. As at accounts audit date the data in the accounts is correct. Some corrections are required to the treatment of the loans in the housing records to bring them into line.</p> <p>Responsible office: Director of Finance, Housing and Community Due date: Autumn 2015</p>
3.	<p>Staff pressures have particularly impacted on the bank reconciliation with the latest reconciliation completed at June 2015 being March 2015.</p> <p>Recommendation: The Council should ensure the bank reconciliation is kept up to date on a monthly basis and any on-going variances are cleared.</p>	Medium	<p>Due to staffing pressures, there has been a delay in progress to bring the bank reconciliation up-to-date. Work is on-going to achieve this and will be resolved by final accounts time.</p> <p>Responsible office: Director of Finance, Housing and Community Due date: July 2015 Update: As at accounts audit, the bank reconciliation completion was up to date.</p>
4	<p>It was noted that there was a deficiency in the authorisation of journals, due to changes in the approach this year.</p> <p>Recommendation: The Council should consider how they assure themselves over journals. This could include monthly or quarterly reviews considering exception reporting parameters i.e. large items, those processed by inexperienced or unusual staff members, those processed outside usual hours etc</p>	Medium	<p>The authorisation of all journals was seen as impractical and not working as an effective control.</p> <p>Responsible office: Director of Finance, Housing and Community Due date: July 2015 Update: Quarterly review of actual versus budget and segregation of duties controls in place at year end.</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	71,580	71,580
Housing benefit grant certification fee	22,040	tbc
Total audit fees	93,620	tbc

* Additional fees are expected to be charged in respect of additional testing performed in relation to the BEN01 housing benefit grant claim for 40+ testing required to be completed by audit team, rather than the authority. This work is on-going and any increase in fee subject to agreement of Public Sector Audit Appointments Ltd.

Fees for other services

Service	Fees £
Audit related services	
Certification of pooling of housing capital receipts return	tbc
Non-audit related services	Nil

Reports issued

Report	Date issued
Audit Plan	June 2015
Audit Findings Report	September 2015
Certification Report	Planned December 2015
Annual Audit Letter	October 2015



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Subject:	TREASURY MANAGEMENT QUARTER TWO REPORT 2015/16
Meeting and Date:	Governance – 3rd December 2015
Report of:	Mike Davis – Director of Finance, Housing & Community
Portfolio Holder:	Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance
Decision Type:	Non-Key Decision
Classification:	Unrestricted
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 30 September 2015 (Q2) and an update of activity to date.
Recommendation:	That the report is received

1. Summary

As at 30 September 2015, the Council's in-house investment portfolio totalled £16.9m (see Appendix 2). This includes some of the funds returned from Investec following their withdrawal from the segregated fund market, although the majority of the returned funds are sitting in overnight cash balances, of which £5m has been placed with Barclays since 30th September, and it is proposed to transfer a further £7.5m from NatWest to a fixed term deposit with HSBC once the account opening procedures are completed to improve investment yields. The Treasury Management Strategy Statement (TMSS) has been updated and approved since quarter one in order to deal with the higher level of in-house funds available for investment as a result of the changes.

It is expected that we will increase the sum regarded as "investment portfolio" (as opposed to cashflow funds), from the previous level, which was £22m approx., to over £30m as part of reviewing our cashflow needs following the return of the funds from Investec. Some of this increase may, in fact, be shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2016/17 and 2017/18 on a new leisure centre and town hall refurbishment.

The Council's investment return for the quarter was 0.50%, which outperformed the benchmark¹ by 0.14%. However, while the Council's budgeted investment return for 2015/16 is £333k, performance for the year is estimated to be £304k, which is £29k below budget. This is mostly due to the on-going pressure on interest rates and the reduction in deposit durations permissible for part-nationalised banks following revisions to credit ratings.

The Council has remained within Prudential Code guidelines during the period.

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.

2. Introduction and Background

Council adopted the 2015/16 Treasury Management Strategy Statement (TMSS) on 4 March 2015 as part of the 2015/16 Budget and Medium Term Financial Plan.

The 2015/16 Treasury Management Strategy was revised and approved by Council on 30th September 2015 to allow for the transfer of additional funds held in-house by DDC for investment following the withdrawal of Investec, formerly the Council's fund managers, from the local authority segregated funds market.

While sums are currently held in low-interest bearing overnight and instant access deposit accounts with the Council's operating bank and others, it is proposed to open new longer term accounts at better rates following update of the TMSS, subject to suitable credit criteria (e.g. £5m has been placed with Barclays for six months on 2nd October 2015).

3. Annual investment strategy

The Gilt holding of £1.9 million transferred to King and Shaxson following Investec's withdrawal from the segregated fund market will be held until its maturity date of July 2018.

The investment portfolio as at the end of September is attached at Appendix 2. Since the end of the quarter, £5 million previously held in an overnight account with Barclays has been transferred, on 2nd October, to a six-month fixed term deposit with Barclays at a rate of 0.69%, and £1 million Bank of Scotland deposit maturing on 9th November has been reinvested for six months at a rate of 0.75%. We are in the process of opening an account with HSBC to place further funds, currently in our operating bank's overnight (SIBA) account at low interest rates, in order to spread risk and earn higher returns.

Cash flow funds increased from £35.4m at 30 June 2015 to £39.4m at 30 September (see Appendix 2), which is partly due to an increase in right-to-buy housing sales in the last quarter. Additionally, there is an increased inflow of Council Tax receipts, generally paid over 10 months from April to January, while preceptors on the Collection Fund are paid their shares of Council Tax income evenly over the year which causes some building of cash balances until February/March. The cash flow funds have dropped since 30 September 2015, to £33.1m by 31 October 2015 (see Appendix 4), but this mainly relates to the transfer of £5m funds to a fixed term deposit with Barclays and therefore shown within investment portfolio instead.

4. Economic background

The report attached contains information up to the end of September 2015; since then we have received the following update from Capita (please note that their reference to quarters is based on *calendar* years):

Introduction

October kicked off with Volkswagen reporting its first quarterly loss for at least 15 years after its performance was materially undermined by provisions to cover the potential costs of its emissions scandal. Elsewhere, China's economy showed little sign of improvement, with official figures revealing it grew 3% less (on an annual basis) than in the previous three decades. Meanwhile, the Bank of England's

Monetary Policy Committee (MPC) provided no surprises once again, with an 8-1 vote from members in favour of no change in the level of policy support.

The excess supply of oil continues to linger, affecting global economies and markets. With North Sea oil production struggling with the crashing prices, the UK oil sector is predicted to lose a further 10,000 jobs, alongside the 5,500 already made redundant. The surplus supply has sent oil prices plummeting over the past year, with the international benchmark Brent crude falling from over \$100 a barrel in July 2014, to trade around the \$50-mark today. Credit ratings agency, S&P, gloomily suggested that prices may remain low even longer than expected with a “more prolonged recovery”.

GDP

Britain's economic growth fell by more than expected in the third quarter of 2015, with figures revealing that the economy grew 0.5% between July and September, in contrast to the 0.7% growth in the second quarter. This missed economists' expectations of 0.6% growth, while the annual return of 2.3% was also shy of forecasted levels. Despite accounting for a small portion of overall output, the 2.2% shrinking of the construction sector hit GDP the hardest. Contrastingly, industrial output benefited from a bounce in oil production, mainly due to fewer maintenance shutdowns than in previous years. While the slowing of the recovery is only expected to be temporary, the data underlined market expectations that monetary policy tightening will not commence anytime soon.

Interest Rates

The MPC held UK interest rates at the record low of 0.5%, following an 8-1 vote in favour of keeping rates unchanged. This marks the 79th consecutive month without a change to rates. Following August and September's actions, Ian McCafferty, once more, voted for a modest 0.25% increase in the Bank Rate.

US Data

US economic growth also slowed sharply in the third quarter of this year as a result of businesses scaling back investment. GDP grew by 1.5% from July to September, down from 3.9% in the second quarter. This was modestly below economists' expectations of 1.6% growth for the period.

At the conclusion of its two day meeting, the Federal Reserve announced that it will keep interest rates at their record low of 0-0.25%. However, the accompanying statement did suggest that a hike is still a possibility in the final meeting of the year, in mid-December. This wrong-footed markets and saw US equities give up some of their recent gains, which also affected markets further afield.

Retail Sales

Domestic retail sales rose at the fastest monthly rate since December 2013 in September, predominantly boosted by falling store prices and promotions related to the Rugby World Cup. The Office for National Statistics (ONS) revealed retail sales had climbed up by 1.9% on the month, far higher than economists' forecasts for a 0.3% rise, suggesting hosting the Rugby World Cup provided a timely uplift to sales and helped the industry set a solid platform ahead of the essential Christmas period.

Inflation

For the second time this year, inflation in Britain has dipped below zero, easing pressure on the MPC to raise interest rates from their record low. ONS figures revealed that the Consumer Prices Index (CPI) dropped from zero in August to -0.1% in September, mainly dragged by cheaper fuel prices and a less-than-expected rise in clothing prices. Despite this, Mark Carney reassured Britons that the UK is not headed for a scenario of widespread price falls becoming entrenched, and to enjoy low inflation while it lasts. This fall in CPI has boosted household budgets as wages continue to rise faster than underlying prices.

Employment

UK unemployment slipped to its lowest level since mid-2008 between June and August with the number of people out of work standing at 1.77 million. This, however, was surpassed by the slight slowdown in average earnings, with pay excluding bonuses increasing by 2.8%, compared to a 2.9% rise in the period to July. Policymakers at BoE have stated that wage growth and unemployment will be key deciders for when it is eventually decided to hike interest rates. The data, therefore, saw some market participants push back further on their expectations for when rate-setters will begin to hike.

Mortgage Lending

In the year to September, mortgage approvals leaped 24%, figures by the BBA showed, suggesting buyers are racing to secure mortgages in fear that interest rates will hike soon. Despite this, British banks approved the fewest mortgages last month since May. With surveys continuing to indicate a shortage of new homes for sale, this is likely to increase the upward pressure on house prices, which the UK Chief Economist of Capital Economics, expects to increase by approximately 8% next year.

5. Net Borrowing

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

6. 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.

7. Compliance with Treasury and Prudential Limits

The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices, but has exceeded the level of permissible deposit with its own operating bank, NatWest, albeit in a low risk instant-access overnight deposit account. As mentioned above, it has been necessary to revise the Treasury Management Strategy Statement for 2015/16 to provide sufficient scope to spread the investment risk across a sufficiently wide number of banks and institutions, which was approved by Council on 30th September 2015. We are in the process of opening accounts with further highly credit-rated banks following the

revision of the TMSS in order to lower the levels of cash with our operating bank, and transfer funds to longer term investments with better rates of return.

Appendices

Appendix 1 – Capita treasury management report for quarter two

Appendix 2 – Investment portfolio as at 30 September 2015

Appendix 3 – Borrowing portfolio as at 30 September 2015

Appendix 4 – Investment portfolio as at 31 October 2015

Background Papers

Medium Term Financial Plan 2014/15 – 2016/17

Contact Officer: Stuart Groom, extension 2072

Treasury Management Update

Quarter Ended 30th September 2015

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, Q3 and Q4 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 2015).

1. Economic Background

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006, and the 2015 growth rate is likely to be a leading rate in the G7 again, possibly being equal to that of the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y). Growth is expected to weaken marginally to about +0.5% in quarter 3 as the economy faces headwinds for exporters from the appreciation of Sterling against the Euro and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme, although the pace of reductions was eased in the May Budget.

Despite these headwinds, the Bank of England is forecasting growth to remain around 2.4 – 2.8% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero over the last quarter. Investment expenditure is also expected to support growth.

The August Bank of England Inflation Report forecast was notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. However, with the price of oil taking a fresh downward direction and Iran expected to soon rejoin the world oil market after the impending lifting of sanctions, there could be several more months of low inflation still to come, especially as world commodity prices have generally been depressed by the Chinese economic downturn.

There are therefore considerable risks around whether inflation will rise in the near future as strongly as previously expected; this will make it more difficult for the central banks of both the US and the UK to raise rates as soon as had previously been expected, especially given the recent major concerns around the slowdown in Chinese growth, the knock on impact on the earnings of emerging countries from falling oil and commodity prices, and the volatility we have seen in equity and bond markets in 2015 so far, which could potentially spill over to impact the real economies rather than just financial markets.

The American economy has made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015. While there had been confident expectations during the summer that the Fed. could start increasing rates at its meeting on 17 September, or if not by the end of 2015, the recent downbeat news about Chinese and Japanese growth and the knock-on impact on emerging countries that are major suppliers of commodities, was

cited as the main reason for the Fed's decision to pull back from making that start. This has led to a reappraisal of the likelihood of any increase occurring in 2015 with early 2016 now being widely regarded as being more likely.

In the Eurozone, the ECB, in January 2015, unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This already appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to a significant improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and looks as if it may maintain this pace in quarter 3. However, the recent downbeat Chinese and Japanese news has raised questions as to whether the ECB will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

2. Interest Rate Forecast

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

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Bank rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%
5yr PWLB rate	2.40%	2.50%	2.60%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.00%	3.20%	3.30%	3.40%	3.50%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%
50yr PWLB rate	3.60%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.60%	4.60%

Capita Asset Services undertook a review of its interest rate forecasts on 11 August after the August Bank of England Inflation Report. This latest forecast includes no change in the timing of the first increase in Bank Rate as being quarter 2 of 2016. With CPI inflation now likely to be at or near zero for most of 2015, it is difficult for the MPC to make a start on increasing Bank Rate when the Inflation Report forecast was also notably subdued with inflation barely getting back up to the 2% target within the 2-3 year time horizon. Despite average weekly earnings ticking up to 2.9% y/y in the three months ending in July, (as announced in mid-September), this is unlikely to provide ammunition for

the MPC to take action to raise Bank Rate soon as labour productivity growth meant that net labour unit costs are still only rising by about 1% y/y. The significant appreciation of Sterling against the Euro in 2015 has also acted as a dampening to UK growth while sharp volatility in financial markets since the Inflation Report has depressed equity prices, raised bond prices and lowered bond yields (and PWLB rates).

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when average disposable income is only just starting a significant recovery as a result of recent increases in the rate of wage inflation, though some consumers will not have seen that benefit come through for them.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2015/16, which includes the Annual Investment Strategy, was approved by the Council on 04/03/2015. 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 its 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 periods up to 12 months with highly credit-rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. 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 over **£30m** core cash balances for investment purposes (i.e. funds available for more than one year). However, only £17m are shown as portfolio/core balances on Appendix 2 at 30th September, as the majority of funds returned by Investec are being held in short-term call accounts pending the opening of new longer term accounts at better rates following update of the TMSS, subject to suitable credit criteria (e.g. £5m has been placed with Barclays for six months on 2nd October 2015).

Investment performance for period ended 30th September 2015

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36	0.50	£130k year-to-date

As illustrated, the Council outperformed the benchmark by 14 **bps**. The Council's budgeted investment return for 2015/16 is **£333k**, and performance for the year is estimated to be **£304k**, which is **£29k** below budget. However, this is an improvement on the £41k shortfall forecast at the end of the previous quarter.

4. New Borrowing

The 50 year PWLB target (certainty) rate for new long term borrowing, for the quarter ending 30th September, fell slightly from 3.60% to 3.40% after the August Bank of England Inflation report.

No borrowing was undertaken during the quarter.

It is anticipated that no further borrowing will be undertaken during this financial year.

PWLB certainty rates quarter ended 30th September 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.23%	1.96%	2.56%	3.21%	3.07%
Date	24/09/2015	24/09/2015	29/09/2015	12/08/2015	12/08/2015
High	1.35%	2.35%	3.06%	3.66%	3.58%
Date	05/08/2015	14/07/2015	14/07/2015	02/07/2015	14/07/2015
Average	1.29%	2.15%	2.78%	3.40%	3.28%

Borrowing in advance of need

This Council has not borrowed in advance of need during the quarter ended 30th September 2015 and has not borrowed in advance in all of 2015/16.

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

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

During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement (TMSS) and in compliance with the Council's Treasury Management Practices, with the exception of the funds in overnight accounts with the Council's operating bank, which exceed the £10m limit. This is low risk and temporary while the Council opens new accounts with other highly credit-rated banks to spread risk and improve returns, following revision of the TMSS (approved by Council on 30th September 2015). The prudential and treasury Indicators are shown after point (7) below.

7. Other

Treasury Management Strategy Statement

Investec withdrew from the segregated investment fund market and, on 30 June 2015, returned the Council's investment of £11m approx. A further £1.9m in Gilts was separately transferred to King and Shaxson to be held until maturity in 2018.

The treasury management strategy statement (TMSS) has been revised to take account of the higher level of in-house funds being managed by DDC. We are in the process of opening further accounts with highly credit-rated institutions, at low risk, to enable higher returns with a view to minimising any further shortfall of investment income against budget in 2015/16.

Changes in credit rating methodology.

The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.

In keeping with the agencies' new methodologies, the credit element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used by Standard & Poor's, this has been a change to the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

Prudential and Treasury Indicators as at 30th September 2015

Treasury Indicators	2015/16 Budget £'000	Quarter 2 (Jul-Sep) 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	2,086	2,086
12 months to 2 years	3,256	3,256
2 years to 5 years	6,993	6,993
5 years to 10 years	13,232	13,232
10 years and above	64,188	64,188

Prudential Indicators	2015/16 Budget £'000	Quarter 2 YTD (Apr-Sep) Actual £'000
Capital expenditure	19,856	5,099
Capital Financing Requirement (CFR)	98,233	91,079

In-house as at 30/09/15

APPENDIX 2

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon							
United Kingdom	Gilt		22/07/2018	1.010	1,910,000		
					1,910,000		

In-house Investments - Portfolio

							Duration
Lloyds	Term deposit	A+/F1/5	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A+/F1/5	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A+/F1/5	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/5	23/02/2015	0.660	3,000,000	UK - Gov 'AA+'	182 days
Close Brothers	Fixed term deposit	A/F1/5	18/12/2015	0.700	5,000,000	UK - Gov 'AA+'	171 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2016	0.660	1,000,000	UK - Gov 'AA+'	182 days

15,000,000

Total Portfolio

16,910,000

Cashflow

Call Accounts/MMF (as at 30/09/15)

Rate

Global Treasury Fund (Goldman Sachs)	4,550,106	0.39%
Standard Life Investments Money Market Fui	5,000,000	0.49%
Natwest SIBA	14,517,523	0.25%
Natwest SIBA SEEDA	55,929	0.10%
Natwest SIBA HCA	47,634	0.10%
Natwest SIBA ASDA	11,074	0.10%
Santander	5,041,087	0.20%
BoS	5,119,912	0.40%
Barclays	5,081,605	0.45%

Total Cash flow

39,424,868

Total Portfolio and Cashflow

56,334,868

£5million from Barclays FIBCA call account placed in 6 month fixed deposit with them @ 0.69% on the 2/10/15

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-15	Interest Rate %	Principal To Be Repaid 2015/16	Annual Interest 2015/16	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		67,500	PWLB	Principal due on maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		147,500	PWLB	Principal due on maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	513	2.50	45	13	PWLB	Equal instalment of principal
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	96	2.50	8	2	PWLB	Equal instalment of principal
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		47,500	PWLB	Principal due on maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	NA	3,000,000	4.75		142,500	KA Finanz AG	Repayable if called by bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	84,776,429	3.18	2,021,864	2,679,943	PWLB	Annuity
Fixed	01/05/2012	01/11/2027	MAY-NOV		104,515	0.00	8,710	0	Lawn Tennis Association	Interest free
					91,881,554		2,030,627	3,084,958		

In-house as at 31/10/15

APPENDIX 4

Organisation	Type of investment	Current rating	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon							
United Kingdom	Gilt		22/07/2018	1.010	1,910,000		
					1,910,000		

In-house Investments - Portfolio

							Duration
Lloyds	Term deposit	A+/F1/5	17/12/2015	1.000	3,000,000	UK - Gov 'AA+'	364 days
BOS	Bond	A+/F1/5	07/11/2015	1.000	1,000,000	UK - Gov 'AA+'	364 days
Lloyds	Term deposit	A+/F1/5	30/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/5	23/02/2015	0.660	3,000,000	UK - Gov 'AA+'	182 days
Close Brothers	Fixed term deposit	A/F1/5	18/12/2015	0.700	5,000,000	UK - Gov 'AA+'	171 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2016	0.660	1,000,000	UK - Gov 'AA+'	182 days
Barclays	Fixed term deposit	A/F1/5	04/04/2016	0.690	5,000,000	UK - Gov 'AA+'	185 days

20,000,000

Total Portfolio

21,910,000

Cashflow

Call Accounts/MMF (as at 31/10/15)

Rate

Global Treasury Fund (Goldman Sachs)	4,550,106	0.44%
Standard Life Investments Money Market Fui	5,000,000	0.50%
Natwest SIBA	13,155,523	0.25%
Natwest SIBA SEEDA	55,926	0.10%
Natwest SIBA HCA	47,634	0.10%
Natwest SIBA ASDA	11,074	0.10%
Santander	5,053,148	0.20%
BoS	5,123,391	0.40%
Barclays	81,605	0.40%

Total Cash flow

33,078,406

Total Portfolio and Cashflow

54,988,406

£1 million from Bank of Scotland maturing 9th November placed in 6 month fixed deposit with them @ 0.75% on the 9/11/15

Subject:	APPOINTMENT OF EXTERNAL AUDITORS – LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 AND THE LOCAL AUDIT (APPOINTING PERSON) REGULATIONS 2015
Meeting and Date:	Governance Committee – 3 December 2015 Council – At the Appropriate Time
Report of:	David Randall, Director of Governance
Classification:	Unrestricted
Purpose of the report:	Following an initial report to the committee on 18 June 2015, this report provides further additional information and updates members on the routes available for the future appointment of External Auditors, including the option of becoming an opted in authority for a sector lead appointment or the options of creating our own or a joint Auditor Panel to secure the appointment..
Recommendation:	<ol style="list-style-type: none"> 1. That the Committee notes the issues arising for this Council from the provisions of the Local Audit and Accountability Act 2014 and The Local Audit (Appointing Person) Regulations 2015. 2. That the Committee agrees that this Council seeks to opt in to the sector lead procurement of the external audit service as outlined in option 1 of this report. 3. That the Council be recommended to accept an invitation to become an opted in authority for the purpose of appointing a local auditor to audit the accounts of this Council at the appropriate time.

1. Summary

- 1.1 The Local Audit and Accountability Act 2014 received Royal Assent last year and has been brought into force on various dates since. It brings about changes to the external audit regime for local authorities. The original paper of 18th June 2015 set out the issues arising for Members' consideration, in particular relating to the future appointment of External Auditors and the need to form an Auditor Panel.
- 1.2 Since preparing the original report and following discussions with the other Kent Authorities, it has become apparent that there was additional legislation that I missed and wasn't included in the original report. This is included in The Local Audit (Appointing Person) Regulations 2015, not as part of the Accounts and Audit Regulations. This provides an additional option, in that a sector lead appointing person makes the appointment of the auditor, avoiding the need for an Auditor Panel.
- 1.3 This report updates the original report of 18th June 2015 to reflect the additional legislation and the discussions that have taken place with the other Kent authorities and offers an alternative recommended way forward.

2. Background

- 2.1 There are two significant pieces of legislation that are relevant to the future appointment of auditors:

Local Audit and Accountability Act 2014

- 2.2 The Local Audit and Accountability Act 2014 abolished the Audit Commission and (subject to transitional provisions) repeals the Audit Commission Act 1998. Its aim, as stated in DCLG guidance, is to give local bodies the freedom to appoint their own auditors from an open and competitive market and to manage their own audit arrangements, with appropriate safeguards to ensure independence.
- 2.3 The new local arrangements for the appointment of auditors were originally expected to start after the Commission's current contracts with audit suppliers ended in 2016-17. However, our current external auditors, Grant Thornton believe that the Secretary of State has extended their audit contract by 1 year to include the 2017-18 year. Therefore, it is likely that arrangements for new auditors to audit the 2018/19 accounts will need to be finalised by 31st December 2017, so that the new auditors are in place by 1st April 2018. This allows the Council more time to finalise its arrangements than we originally envisaged. However, this could mean that we have a period with two different external auditors, as Grant Thornton will be auditing the 2017/18 accounts up to around October 2018, whilst a potentially different auditor will be in place from April 2018 preparing to audit the 2018/19 accounts.
- 2.4 This Council is a "relevant authority" within the scope of the Act, being listed in Schedule 2.
- 2.5 The key accounting and audit obligations will be to:
- Keep adequate accounting records and an annual statement of accounts for years ending 31 March; and
 - Have accounts audited in accordance with the Act by a local auditor appointed under the Act.

Local Auditors

- 2.6 Part 3 of the Act (and Schedule 3) deal with the appointment of local auditors (unless appointed under the Local Audit (Appointing Persons) Regulations 2015 (see paragraph 2.16 et seq.). The key points of interest are:
- Appointments may last for more than one year but a new appointment must be made at least once every five years – this does not prevent the re-appointment of an auditor. An authority may appoint two or more local auditors at once, either acting jointly or separately.
 - The auditor(s) must be eligible (under Part 4 and Schedule 5 of the Act) and independent of the body being audited.
 - Schedule 3 paragraph 1(1) provides that the auditor(s) must be appointed by the Council (rather than by the executive).
 - Auditors must be appointed by the end of 31st December in the financial year before the financial year which will be covered by the accounts to be audited.

- Section 8 of the Act sets out the procedure for appointing auditors if appointed by the Council and imposes an obligation to consult and take into account the advice of the auditor panel on the selection and appointment of a local auditor. There is also a requirement to publicise the appointment.

Role of auditor panels

- 2.7 If the appointment is not to be made by the Appointed Person, Section 9 of the Local Audit and Accountability Act 2014 requires the Council to have an auditor panel whose role is to advise the Authority on:
- The maintenance of an independent relationship with the appointed local auditor(s);
 - The selection and appointment of a local auditor;
 - Any proposal to enter into an agreement limiting the liability of its auditor(s), if the Council wanted to enter into such an agreement it would be a matter for the full Council.
- 2.8 The panel's advice to the Authority must be published.
- 2.9 Schedule 4 makes more detailed provision about auditor panels. Paragraph 1 provides that the panel must be one of the following:
- An auditor panel specifically appointed as such by the Authority; or
 - An auditor panel jointly appointed as such with one or more other authorities; or
 - A committee (or sub-committee) of the Authority which meets the specified requirements for auditor panels (see below) and which has agreed to be the Authority's auditor panel. (For this Council, this would mean the Governance Committee. If this Council chose this approach, the constitution of the Governance Committee would need to change to an independent chairman and a majority of independent members.)
- 2.10 For this Council, the appointment of the auditor panel would be a matter for the full Council.
- 2.11 Paragraph 2 of Schedule 4 of the Act deals with the constitution of auditor panels. It has been amended by the Local Audit (Auditor Panel Independence) Regulations 2014 which inserted a revised definition of "independence".
- 2.12 An auditor panel must consist of a majority of (or wholly of) independent members, and must be chaired by an independent member.
- 2.13 The amendments to Paragraph 2 of Schedule 4 of the Act make specific provision relating to the Council. Paragraph 2 (2) of Schedule 4 of the Act now provides that a member of its auditor panel cannot be "independent" as required if (s)he has been a:
- Member or officer of the Council within the previous five years; or
 - Member or officer of another relevant authority, or an officer or employee of another entity, where the other relevant authority or entity is "connected with" the Council.

- 2.14 Other categories of person who are excluded from being independent members are those “connected with” current/prospective auditors; relatives or close friends of members/officers of relevant authorities and connected authorities and entities; and persons who have entered into contracts with the authority.
- 2.15 The definition of “connected entities” is set out at paragraph 8 of Schedule 4. It provides that an entity is connected with a relevant authority at any time if the Authority considers that, in accordance with proper practices in force at that time, the:
- Financial transactions, reserves, assets and liabilities of the entity are to be consolidated into the Authority’s statement of accounts for the financial year in which that time falls;
 - Authority’s share of the entity’s financial transactions, reserves, assets and liabilities is to be consolidated into the Authority’s statement of accounts for that financial year; or
 - Authority’s share of the net assets or liabilities of the entity, and the profit or loss of the entity, are to be brought into the Authority’s statement of accounts for that financial year.

Local Audit (Appointing Person) Regulations 2015

- 2.16 A separate set of regulations from the Local Audit and Accountability Act and the Accounts and Audit Regulations, The Local Audit (Appointing Person) Regulations 2015 were laid before Parliament in February 2015. The new regulations allow local government to establish collective procurement arrangements.
- 2.17 A framework is set out in regulations to allow authorities to opt into collective procurement arrangements established by the local government sector. The regulations set out the process for the Government to approve an organisation to act as a sector-led body. The Secretary of State has designated Public Sector Auditor Appointments Ltd, a sector-led body recommended by the local government sector as an appointing person and given them the necessary powers and duties to act as a collective procurement body. (see paragraph 2.24)
- 2.18 The regulations set out the process by which authorities can choose to participate in the sector-led arrangements. Essentially, the appointed person must invite authorities to become opted in authorities. The authorities to whom the invitation is issued must then individually decide whether to accept the invitation. The decision to accept the invitation may only be accepted by the full council. If an authority accepts then, the appointment of the auditor is made by the appointing person. The regulations also set out the powers and functions of the appointing person which include, for example, a power to levy fees on opted-in authorities and a corresponding duty on the body to consult before setting those fees.
- 2.19 These regulations modify parts of the Local Audit and Accountability Act 2014, as they apply to authorities that have opted in to the collective procurement arrangements. This includes the provision that Authorities that opt in and do not make their own appointment will not need to establish an independent auditor panel.
- 2.20 The regulations still requires the Appointing Person to make a new appointment at least every five years. In the vast majority of cases, that will require the Council to go through a full EU-compliant appointment process, taking advice from their

independent auditor panel. That will ensure that authorities regularly review the quality of the audit service and that auditors are appointed through a fair and compliant process. If the incumbent firm is found to be the best candidate through such an open and competitive process, we do not think it right that Government should prevent its reappointment.

- 2.21 In addition, the Financial Reporting Council's ethical standards already require that key audit staff, such as the lead partner are rotated on a regular basis. The Government believe that, along with the other provisions about auditor appointment and removal, the requirements for a new appointment every five years and for the rotation of key audit staff provide sufficient safeguards to ensure the independence of the auditor."

Best value inspections

- 2.22 Schedule 10 of the Act deals with "best value inspections" and transfers the power (previously held by the Audit Commission) to order an inspection to the Secretary of State for Communities and Local Government. In practice this is likely to mean that the auditors will no longer be required to give an opinion on the "best value" arrangements of a council, as they do annually at present.
- 2.23 It is not clear to what extent the Secretary of State is likely to order such inspections, or who would be asked to undertake them. However, it is reasonable to assume that they are likely to be the exception rather than the norm.

Abolition of the Audit Commission

- 2.24 As noted above, the Audit Commission ceased to function on 31 March 2015. The table below summarises the arrangements which will be in place from 1 April 2015 for Audit Commission functions.

Audit Commission function	Destination
Audit contracts	Transitional body (see below)
Certification work (Housing Benefit only)	Transitional body
VFM profiles tool	Transitional body
Code of Audit Practice and technical guidance	National Audit Office
VFM studies	National Audit Office
National Fraud Initiative	Cabinet Office
Counter-fraud	CIPFA
Corporate governance inspections	Secretary of State for Communities and Local Government

- 2.25 A transitional body has been established by the Local Government Association (LGA) as a private company. This company is called Public Sector Audit Appointments

(PSAA) PSAA will operate between 2015 and 2017 (or to 2020 if any of the current contracts are extended by DCLG) and will:

- During the transition, appoint auditors from 1 April 2015;
- Set fees from 2016-17; and
- Monitor compliance and quality issues.

- 2.26 As the “Appointing Person” Public Sector Audit Appointments will make the auditor appointment for those Councils that become an opted in authority from the end of the transitional period.

Note: Article 6(2) of the Local Audit and Accountability Act 2014 (Commencement No. 7, Transitional Provisions and Savings) Order 2015 allows during the transitional period that section 7 of the Audit Commission Act 1988 (which deals with the setting of fees) is kept ‘alive’ but the functions under it are delegated by the Minister to PSAA

- 2.27 It is expected that local authorities will either join a collective procurement vehicle or establish their own auditor panels with a view to commencing procurement in late 2015 ready for appointment by December 2016 and operation from the 2017-18 financial year.

3. Options for Consideration

- 3.1 In line with the arrangements in place at other local authorities, the Council’s current external audit contract (with Grant Thornton) runs to 2016-17, but we believe this has been extended to 2017-18, with the possibility of a further extension to 2019-20. However, it is appropriate that this Council addresses the issues arising from the new external audit regime. The specific issues for consideration are whether the Council wishes to opt in to the sector lead appointment of our external auditor, or if not the structure and appointment of the Auditor Panel and the procurement route for the service:

- 3.2 Option 1. The Council could seek to opt in to the sector lead procurement of the external audit service. The Local Audit (Appointing Person) Regulations 2015 Part 2, paragraph 3 enables the Secretary of State to specify an Appointing Person to appoint a local auditor to audit the accounts of an opted in authority. Using Public Sector Audit Appointments as the Appointing Person is attractive as it removes a great deal of administration and arrangements that will need to be put in place and improves the effectiveness of procuring in what is a specialised activity area. The market for this service is very limited and at present, only the larger accounting firms have the experience and specialist staff to undertake the work. These firms would be much more likely to bid for work through a bigger procurement exercise rather than seek work from one or two isolated districts or even an area as large as Kent. In contrast a contract for the south east (as at present) would be more attractive and would potentially attract the right players and maintain economies of scale.

- 3.3 If the Council chooses not to join the sector lead route, there are three alternatives:

- 3.4 Option 2. The Council could seek to form a joint auditor panel and a joint procurement arrangement with neighbouring authorities (this could be with East Kent Authorities or could be wider to cover the whole of Kent) so that there is a single auditor panel and single external audit contract for the entire area (however defined). This would aim to take advantage of better purchasing power and provide a more attractive offer for the external auditor bidders. This is particularly important as local

authority audit is a specialised activity. The market for this service may develop, but we should not assume it will, and at present, only the larger accounting firms have the experience and specialist staff to undertake the work. These firms would be unlikely to seek work for one or two isolated districts, and then procurement could be problematic. In contrast a contract for Kent or the south east (as at present) would be more attractive and would potentially maintain economies of scale.

- 3.5 At the present time, our external auditors, Grant Thornton provide the service across all of Kent. There may be some additional bureaucracy associated with creation and management of a joint auditor panel, although it would avoid the need for each body to source its own independent members. In reality the panel is unlikely to meet very often and the governance arrangements once established should be relatively easy to manage. This approach would require delegations from (or feasibly to) this Council from other Councils to form a lead authority for the appointment of the panel and for future governance and procurement purposes. There would also need to be joint arrangements in place to introduce and manage an allowance scheme for the panel.
- 3.6 Option 3. Alternatively, the Council could form its own auditor panel and undertake its own procurement arrangements. This approach if replicated elsewhere, could lead to the panels in each authority in Kent, with associated administration and governance to create and maintain each panel. Procurement would then be undertaken for this Council, the small size of the audit contract may not be attractive to the bidders, who in reality are likely to be from the bigger accounting firms. This approach raises the question as to whether there is an available and willing source of independent members across Kent to appoint to numerous auditor panels, recognising that there will need to be a majority of independent members, including the chair on the panel and the panel will have limited responsibilities and in reality will meet infrequently, and will be dealing with an area that is to some degree specific to local authorities. If the Council was to choose this approach, it is suggested that the auditor panel should be formed of three independent members and two district councillors. Three or more district councillors would mean that the panel would be treated as a committee of the Council and impact on the political balance rules. It is also suggested that the auditor panel doesn't become a committee or sub-committee of the Council (i.e. becoming the Governance Committee).
- 3.7 Option 4. The Council could have a hybrid of options 1 and 2. It could form its own auditor panel, but seek to procure jointly with neighbours, either within East Kent or with the wider Kent authorities. All participating Councils in this arrangement would have to pass the same resolution, not insurmountable, but with some difficulties. This would allow the Council's own auditor panel to advise this Council, whilst benefiting from joint procurement as described above. This raises the same question of available and willing independent members as described above. It also raises the issue of the composition of the panel, it would again be suggested that a 3:2 split is the most suitable arrangement.

4. Preferred Option

- 4.1 It would seem sensible to pursue Option 1. This offers the potential for economies of scale and importantly a high probability of securing auditors with the necessary experience to effectively audit this local authority. If the Council approves this option, during the compulsory appointing period, which is not yet specified, the Council will need to give notice to the Appointing Person of our decision to become an opted authority.

- 4.2 Options 2 to 4 would require the full Council to initially delegate the interview process to either a committee of Council or a specially formed sub- committee or to officers of the Council or to another Council (if a joint approach was approved). Ultimately Council would be required to approve the auditor panel appointments.

5. **Resource Implications**

- 5.1 Option 1 will incur minimum costs for the Council. Options 2 to 4 will require officer time to introduce these arrangements. There will be costs associated with advertising and then interviewing for the independent members. Subsequently there will be the cost of an allowance scheme.

6. **Corporate Implications**

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

7. **Appendices**

None

8. **Background Papers**

Local Audit and Accountability Act 2014

The Local Audit (Appointing Person) Regulations 2015

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