

Public Document Pack



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14 March 2016

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 24 March 2016 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

A handwritten signature in dark ink, appearing to be "N. Smith", written over a horizontal line.

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 - 8)

To confirm the attached Minutes of the meeting of the Committee held on 3 December 2015.

5 **SHELTERED AND SUPPORTED HOUSING - EAST KENT HOUSING UPDATE** (Pages 9 - 13)

To consider the attached report of the Head of Operations, East Kent Housing.

6 **NEW PAYROLL SYSTEM AND SERVICE - BUSINESS ASSURANCE** (Pages 14 - 17)

To consider the attached report of the Head of EK Human Resources.

7 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 18 - 54)

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

8 **INTERNAL AUDIT CHARTER AND 2016/17 DRAFT PLAN** (Pages 55 - 77)

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

9 **TREASURY MANAGEMENT QUARTER THREE REPORT 2015/16** (Pages 78 - 92)

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

10 **AUDIT PLAN 2015/16** (Pages 93 - 117)

To consider the attached report of Grant Thornton.

11 **CERTIFICATION LETTER 2014/15** (Pages 118 - 120)

To consider the attached letter of Grant Thornton.

Access to Meetings and Information

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of

charge, and all agendas, reports and minutes can be viewed and downloaded from our website www.dover.gov.uk. Minutes will be published on our website as soon as practicably possible after 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 Thursday, 3 December 2015 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: M R Eddy
D Hannent
M J Holloway
A F Richardson

Also Present: Emily Hill, Grant Thornton

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

30 APOLOGIES

Apologies for absence were received from Councillors S J Jones, A S Pollitt and G Rapley

31 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that, in accordance with Council Procedure Rule 4, Councillors M R Eddy and A F Richardson were appointed as substitute members for Councillors A S Pollitt and G Rapley respectively.

32 DECLARATIONS OF INTEREST

Councillor A F Richardson declared a Voluntary Announcement of Other Interests in respect of Minute no 34 by reason that his employer had dealings with the Museum and Dover Bronze Age Boat Trust.

33 MINUTES

The Minutes of the meeting of the Committee held on 22 September 2015 were approved as a correct record and signed by the Chairman.

34 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Deputy Head of Audit Partnership presented the Quarterly Internal Update report.

There had been eight Internal Audit reports completed during the period, resulting in three classified as providing Substantial Assurance (Dover Museum and VIC, Environmental Protection Service Requests, Bank Reconciliation), two as Reasonable Assurance (Capital and Waste & Recycling Collection Bin Review) and two concluded a split assurance level which was partially limited (EK Human Resources; Sickness Absence, Leave & Flexi and East Kent Housing – Sheltered and Supported Housing).

The Sickness Absence, Leave & Flexi figures were gathered from the three authorities – Dover, Canterbury and Thanet. The policies were reported as being up to date; although it was hoped the new EK People system should bring about some improvements in the monitoring and recording of sickness absence. It was requested by Councillor M J Holloway that a more detailed report by EK Human Resources identifying sickness absence specifically for Dover be brought to the Committee.

In respect of Sheltered and Supported Housing, the Head of Operations - EK Housing gave a verbal update to Members. The following addressed the findings set out on pages 19 & 20 of the report which gave rise to the Limited assurance audit opinion:

- In respect of the Independent Living Plans (ILPs), new forms for risk assessment and care had been developed and would be completed by the end of the next financial year.
- It was found that an old form for reporting adult and child protection incidents was on the intranet and this had since been updated.
- In terms of the Disclosure and Barring Service (DBS) process, DBS checks had been applied for, however due to administrative error these had expired. All Independent Living Managers (ILMs) had now completed a Disclosure and Barring Service (DBS) check.
- Fire Risk Assessments – there were still some outstanding actions from the earlier tenants' health and safety audit – priority was being given to sheltered schemes which represented the higher risk buildings.
- Support Workers in Enhanced Sheltered schemes had now completed the safeguarding training.

- RESOLVED: (a) That the Quarterly Internal Audit Update Report be noted.
- (b) That EK Human Resources provide a report on the processes and controls in the new EK People system, specifically focusing on the integrity of Dover sickness reporting to the next meeting of the Committee.
- (c) That a report specific to Dover is brought back to the next meeting of the Committee specifically covering the points specified in the report which gave rise to the Limited Assurance level for Sheltered and Supported Housing – East Kent Housing.

35 GOVERNANCE COMMITTEE UPDATE

The Engagement Lead – Grant Thornton presented the update to the Committee.

The Housing Benefit claim deadline had been met and would be reported in the annual certification letter at the next meeting of the Committee.

RESOLVED: That the update be noted.

36 ANNUAL AUDIT LETTER

The Engagement Lead – Grant Thornton introduced the Annual Audit Letter summarising the work carried out for the year ended 31 March 2015.

RESOLVED: That the Annual Audit Letter be noted.

37 TREASURY MANAGEMENT QUARTER TWO REPORT 2015/16

The Director of Finance, Housing and Community presented the Treasury Management Quarter Two report.

The Council had remained within Prudential Code guidelines and the investment return for the quarter was 0.50%, which outperformed the benchmark by 0.14%. A revised Treasury Management Strategy was approved by Council on 30 September 2015 and new long term accounts would be opened to bring the Council compliant within the Treasury Management Strategy Statement.

RESOLVED: That the Treasury Management Quarter Two report be noted.

38 APPOINTMENT OF EXTERNAL AUDITORS - LOCAL AUDIT AND ACCOUNTABILITY ACT 2014 AND THE LOCAL AUDIT (APPOINTING PERSON) REGULATIONS 2015

The Director of Governance presented the report to the Committee. Following an initial report brought to the Committee on 18 June 2015, Members were provided with an update on the routes available for the future appointment of External Auditors. Since the original report, further legislation in The Local Audit (Appointing Person) Regulations 2015 had provided an additional option of becoming an opted in authority for a sector led appointment of the auditor, rather than the need for an Auditor Panel.

- RESOLVED: (a) 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.
- (b) That the Committee agrees that this Council seeks to opt in to the sector led procurement of the external audit service as outlined in option 1 of the report.
- (c) 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.

The meeting ended at 7.05 pm.

Subject: SHELTERED AND SUPPORTED HOUSING AUDIT - UPDATE

Meeting and Date: Governance Committee – 24 March 2016

Report of: Bob Granville – Head of Operations, East Kent Housing

Decision type: Non-key

Classification: Unrestricted

Purpose of the report: This report provides an update by East Kent Housing on key audit actions identified by the East Kent Audit Partnership's report to this Committee on the 3rd December 2015.

Recommendation: That the Committee note the update report.

1. Summary

At the meeting of this Committee on 3rd December 2015 it considered the findings report presented by East Kent Audit Partnership on their audit of Sheltered and Supported Housing, which is managed by East Kent Housing. At that meeting East Kent Housing undertook to update the Committee on the actions taken to address the key issues of concern identified in the report. This report provides that update on as they affect sheltered and supported housing in the Dover District.

2. Introduction and Background

As part of its regular programme of audits East Kent Housing requested East Kent Audit Partnership to undertake an audit of Sheltered and Supported Housing in the financial year 2015/16.

There was a clear rationale for undertaking the audit at that time. In 2013/14 a comprehensive internal structural review had been undertaken of the service with a view to increase its efficiency and effectiveness. In particular the restructure sought to bring the management for all the service under a centralised management team so that consistent procedures and practices could be developed across the three local authority areas (excludes Thanet). A comprehensive plan for service development was put in place and work on implementing the plan under the new management structure began in October 2014.

The audit itself commenced in April 2015 with its final report findings being submitted to EKH's Finance and Audit Committee in 7th December 2015. In its findings the auditors noted that **“Management and officers should be commended for the service improvements already delivered, and for demonstrating an ongoing commitment for continuing to deliver improvements.”** The auditor also commented that **“EKH are therefore very self-aware of where they have come from, and where they want to get to.”**

3. Summary of Work

At the meeting on the 3rd December 2015 the Governance Committee specifically sought an update on the following six items with specific regard to how they affected tenants living in Dover's sheltered and supported housing. This report sets out the six key issues identified within the audit followed by commentary on the actions taken by EKH to address them.

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

During the service review in 2013/14 it was identified that EKH had inherited different documentation in each local authority as an ILP. At the time of the audit consultation work was underway to create a single standard document which would then be used across the new service. The degree of differences between the inherited documentation required a significant amount of retraining for the Independent Living Managers in order for these to be completed effectively. The staff training programme was completed for the new ILPs in June 2015 (during the audit period) and these have systematically replaced the pre-existing documentation as each ILP is completed.

In order to demonstrate the ILPs have been completed to the required standard a number of new management processes have been introduced, which are:

- Centralised database of all ILPs
- Centralised monitoring to ensure ILPs are valid
- Peer audit to undertake spot checks and validate quality of ILPs

These processes are now operating effectively and at the end of February 2016, of the 322 sheltered housing properties 99.3% were compliant with 14 of the 15 sites being 100% compliant. For monitoring purposes we assess compliance as follows:

- If they are new to the service they have an ILP in place within 14 days¹;
- If they are an existing resident the last review of their ILP was within the last 12 months;
- If they do not wish to have an ILP then there is a waiver in place which was signed by the resident in the last 12 months

There are two residents without a valid ILP or waiver at the time of writing this report and each was less than a month overdue at that time.

¹ This is a Key Performance Indicator from Kent County Councils Older Person Specification

- ***“Reporting arrangements for adult and child protection incidents need to be reviewed to ensure compliance with Data Protection regulations.”***

At the time of the review it was noted by the auditor that the Safeguarding Children Policy was approved in 2012. Whilst this was not strictly relevant to the review being undertaken, as our support services only extend to older persons and we do not provide any children based services, the guidance provided under the Supporting People Quality Assessment Framework indicates that all safeguarding for vulnerable adults and children should be subject to review every three years.

On reviewing our records it was confirmed that the Safeguarding Children Policy had been reviewed and approved by the Board in July 2014 without amendment. Our omission therefore was in not changing the date on the document published on the internet.

The safeguarding children and vulnerable adult policies are viewed by the Board as very important and form part of the health and safety MOT reported to the Board annually, and most recently in July 2015 and are logged as such on our intranet and internet.

It should also be noted that the auditor reported as an area of strength that *“ILM’s are fully aware of the procedures for reporting adult or child protection issues at their sheltered schemes.”*

- ***“Only 13 of the 24 Independent Living Managers (ILM’s) have had a Disclosure and Barring Service check (formerly CRB) check carried out within the last 3 years.”***

There are 5 Independent Living Managers covering the 15 sites in the Dover district. Each of them has a valid DBS check. As can be seen from the table below the oldest one was completed in November 2015 and is due for renewal prior to November 2016.

Name	Date of DBS	Renewal date
ILM 1	15/7/15	14/7/18
ILM 2	13/1/16	13/1/19
ILM 3	26/11/13	26/11/16
ILM 4	22/6/15	22/6/18
ILM 5	23/6/15	23/6/18

When applying for a DBS we request an Enhanced check which provides information on:

- Spent and unspent convictions, cautions, reprimands and final warnings.
- Any additional information held by local police that’s reasonably considered relevant to the role being applied for;
- DBS barred lists for people unsuitable to work with adults.

- ***As at 09 June 2015 the Fire Risk Assessments (FRA's) for the sites visited are past their suggested review dates.***

EKH operates an annual programme of fire risk assessments based upon the nature and use of the building. The order in which the programme of review is undertaken in any given year is not governed by the prior year's anniversary date but by the operational circumstances and risk assessment of officers. For example, if capital works were being undertaken to the building during the year then we would want the fire risk assessment undertaken after the completion of works to ensure that the capital works themselves did not cause any issues and would ignore the anniversary date.

It should be noted by the Committee that the Regulatory Reform (Fire Safety) Order 2005 does not specify the frequency within which Fire Risk Assessments are undertaken, placing the onus on the landlord to determine the frequency based upon their perception of risk. Accordingly any timeframes set are voluntary and not statutory, and if they are not in date they do not breach any legislation merely internal guidance.

The table below sets out the basis upon which EKH undertakes fire risk assessments, and the classification of the high risk group has been agreed with our external consultant Savills.

Risk Level	Accommodation affected	Frequency of Fire Risk Assessments
High	<ul style="list-style-type: none"> • Purpose built flats over 8 storeys • Non-purpose built flats • Sheltered housing • Hostel accommodation 	Annually
Medium	<ul style="list-style-type: none"> • Purpose built flats over 4 storeys 	Every 3 years ²
Low	<ul style="list-style-type: none"> • Purpose built flats up to 4 storeys 	Every 5 years

Of the 15 sheltered sites within the Dover district 100% have received a fire risk assessment in the last 12 months.

- ***80 of the 156 high risk recommendations listed on the Fire Risk Assessments for the schemes visited are past their suggested implementation dates.***

Firstly, the Committee should be aware that our risk assessment process for sheltered housing in the Dover district involves assessing:

- 28 separate buildings, each requiring their own risk assessment,
- 120 specific aspects of the Fire Risk Assessment
- 3,360 potential elements for action.

The Fire Risk Assessments undertaken on each site in 2015/16 were finally completed in January and we have now collated the findings and there are a total of 338 recommended actions, relating to 23 aspects of the Fire Risk Assessment. This level of recommendations represents only 10% of the total elements of assessments. As a consequence, each of the 15 schemes in the Dover district has a Premises Risk Rating of "Moderate". When the actions are completed each sites risk rating will be reduced further.

² This may be brought forward if material works are undertaken to the property

The breakdown of recommendations falls into 3 main categories:

- 149 relate to the undertaking of capital works such as the installation of smoke detection systems, the replacement of non-fire retardant doors with fire retardant ones, and electrical rewiring.
- 81 relate to servicing records not being kept on site;
- 40 relate to improving or providing additional signage.

At the present time we are in the process of tendering contracts to undertake fire preventions works, door replacement and electrical rewiring. Minor works identified are passed to Mears to undertake as part of the repairs and maintenance contract.

- ***Only two of the forty five Support Workers in Enhanced Sheltered schemes have received safeguarding training.***

The Enhanced Sheltered Service is only provided in the Canterbury district, and is the only service which has support workers.

At the time of the audit our training records were retained in two locations locally at Garrity House as well as centrally with EKHR. Whilst the local record was more up to date at the time of the audit it was the central record which was consulted. We have rectified this situation.

All the Enhanced Housing Managers received their safeguarding training in September 2013 from LearnTo. They then undertook cascade training to all of their staff including support workers over the following months.

4. CONCLUSION

As with all audit processes, once an issue is identified EKH commences work to address it. In this particular case a number of the audit actions had previously been identified either through the service review undertaken by EKH staff or by the prior Tenant Health and Safety Report. You will see from the commentary above that significant progress has been made with 5 of the 6 key issues now having been fully resolved and the final action having clear plans in place to deliver the activity.

EKHs independent living service is now better organised and more robust than the service inherited in 2011, with a strong commitment to deliver the high standards of support to vulnerable customers and to ensure that the residents enjoy their time living in social housing.

New Payroll System & Service – Business Assurance

Provided for: Governance Committee

Circulation to: Governance Committee

Information for the period: February 2016

Report produced at: February 2016

Version number	Version description	Version Author
V1.1	Governance Paper	SH

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1. Purpose

The purpose of this paper is to outline the specific controls and processes that have been created and adapted in the new East Kent People payroll system, specifically focusing on the integrity of Dover District Council's sickness reporting.

2. Sickness Absence Reporting

Dover District Council Managers have a responsibility to record sickness absence accurately and EK Human Resources have incorporated some practices to ensure that the data is accurate and the most up to date it can be.

3.1 Real Time Data

All managers have their own individual login for East Kent People – Manager, this enables them to view each member of their team and see which team members are currently off sick, how many absences they have had and what the absence was for. We are currently undergoing a trial before the purchase of a dashboard for East Kent People. The dashboard would be a further option for managers to view sickness data in a chart based format, tolerance levels, sickness days lost in the business to date, top 5 absence reasons and employees are reaching trigger points for their sickness absence in comparison to their peers.

Managers are able to pull reports from the system in relation to all their employees and their sickness to enable better management and ownership of any issues.

3.2 Workflows

East Kent People have workflows built into the system, which have benefits for Dover District Council. Once an employee has been recorded as absent the system will automatically send the line manager an email with details about completing a return to work form. Reminders are also built into the system, one sent to line managers at 7 days and one at 14 days open ended sickness, this reminds managers to complete a return to work interview and to obtain a Fit Note where applicable from their absent team member. Workflows are in progress to be built that will inform line managers when a member of their team has reached specific trigger points of sickness as detailed in Dover's absence policy as a further measure to create manager awareness and prompt action. These practices will enable managers to better manage sickness within their teams.

3.2 Quarterly Meetings

EK Human Resources currently hold quarterly workforce meetings with Dover's CMT to talk through any long term sickness cases, their current sickness levels and anticipated outturn for the year. This gives CMT the opportunity to tackle any issues, reoccurrences or trends at Dover and heightens awareness.



3. Data Quality

Data input into the East Kent People system will be by the Line Manager (sickness) and employee (annual leave), this means that there is a single data input point and removes the opportunity for error on data entry from paper forms.

For annual leave recording, the employee can only request leave as held within the Dover leave scheme appended to their grade and service. Leave is requested and has to be approved by the Line Manager, if leave has not been taken, the employee can request it is amended and the Line Manager has to authorise this. If the leave date has passed, the employee would need to request a change to this by their Line Manager. These measures meant that leave can only be requested if within entitlement and has to be approved by the Line Manager.

Workflows notify the Line Manager of a leave request and when approved, notify the employee of approval (or otherwise).

Sickness absence is entered by the Line Manager into the East Kent People system, and when the employee returns the Line Manager enters the return date. Both the Line Manager and the employee can view the sickness absence record which aids accuracy

4. Policy and Service

EKHR have consulted clients on a suite of updates to East Kent policies, these are in the final states of development and informal consultation, it is proposed (and agreed) by partners to be formally consulted upon during 16/17 and EKHR propose to commence this consultation in April 2016, dependent upon any other over ruling business consultations across the partners which may impact exact timing.

The EKHR service review recommendations, agreed by EKSB in summer 2015, are on plan for implementation in April 2016. Part of the agreement is to move to a new SLA that is qualitative rather than quantitative and initial consultations with the Client Reps are commencing in March 2016.

The EKHR service review implements an HR Business Partner attached to each client, who will manage the workforce information meetings (recommended monthly) with leadership or clients to talk through concerns with people management issues which would include sickness absence to ensure there is a focus within the organisation, although obviously the ownership remains within the management role. This also provides flexible resource that the client can use to focus on the HR issues that they prioritise within their organisation.

Subject:	QUARTERLY INTERNAL AUDIT UPDATE REPORT
Meeting and Date:	Governance Committee – 24th March 2016
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 31 st December 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 31st December 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 twelve Internal Audit reports that have been completed during the period, of which four reviews were classified as providing Substantial Assurance, four as Reasonable Assurance, and two as Limited. There were two additional assignment undertaken for which an assurance opinion is not applicable as they comprised of quarterly benefit testing.
- 2.8 In addition five follow-up reviews have been completed during the period, which are detailed in section 3 of the quarterly update report.
- 2.9 For the nine-month period to 31st December 2015, 155.14 chargeable days were delivered against the planned target of 270, which equates to 57% 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 31st December 2015.

2. SUMMARY OF REPORTS:

Service / Topic		Assurance level	No. of Recs.	
2.1	Printing, Photocopying and Postage	Substantial	H M L	0 2 2
2.2	Housing Allocations	Substantial	H M L	0 1 0
2.3	Community Safety	Substantial	H M L	0 0 0
2.4	Environmental Health & Safety at Work	Substantial	H M L	0 0 0
2.5	Risk Management	Reasonable	H M L	1 3 0
2.6	Public Health Burials	Reasonable	H M L	0 2 4
2.7	Employee Health, Safety and Welfare	Reasonable	H M L	3 3 0
2.8	Building Control	Reasonable	H M L	4 4 1
2.9	VAT	Limited	H M L	3 4 0

2.10	East Kent Housing - Repairs, Maintenance and Void Management	Limited	H M L	7 9 3
2.11	EKS – Quarterly Housing Benefit Testing (Quarter 2 of 2015-16)	Not Applicable		
2.12	EKS – Quarterly Housing Benefit Testing (Quarter 3 of 2015-16)	Not Applicable		

2.1 Printing, Photocopying & Postage – Substantial Assurance.

2.1.1 Audit Scope

To ensure that the Council has established adequate systems of control governing printing, postage and photocopying expenditure, recharges and income.

2.1.2 Summary of Findings

The post and print room provides an efficient service to the organisation in ensuring that printing, postage and photocopying and associated expenditure recharges and income are carried out in a timely fashion.

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

- Established processes are in place for the recharging of postage, photocopying and printing.
- Processes are in place to ensure that both incoming and outgoing post is processed in a timely fashion.
- Internal colour printing work is being scheduled through an online request process and once approved by the Design, Print and Postal Service Manager that it complies with Council standards is scheduled into the print room work.
- Processes are in place to ensure that work for external organisations is charged in accordance with the price list that is in place and that appropriate sundry debtor requests for payment are raised for the works that have been carried out.

Scope for improvement was however identified in the following areas:

- Processes could be enhanced to speed up the monthly reconciliation work carried out by Accountancy in respect of the use of the Multi-Functional Device's.
- Trend analysis that shows that colour printing on the multi-functional devices is increasing year on year from 43,573 items in 12/13 to 136,905 items for the current financial year (up to 02/02/16). The costs associated are also increasing and the reasons for the increase should be further challenged.

2.2 Housing Allocations – Substantial Assurance.

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that housing property is allocated efficiently and effectively to qualifying tenants in accordance with Council policy and procedures and

offers choice to prospective tenants through the allocations process in accordance with prevailing legislation.

2.2.2 Summary of Findings

The Council operates within the provisions of the Housing Act 1996 – Part VI (as amended) and takes into account the Government's statutory guidance on social housing allocations for local authorities in England. The Council must also fulfil its duty to the homeless under Section 184 of the Housing Act 1996 Part VII.

The Council is owner and landlord of 4,443 properties as at January 2016. In 2014/15 372 households were housed in DDC properties and 155 nominations were made to Housing Association properties. The new Housing Allocation policy implemented in August 2013 did not result in a significant reduction in the number of households on the housing register; 2,901 in April 2013 and 2,663 in April 2015. This is because the register was comparatively manageable and, apart from changing from a points system to a banding system, there was little change in the eligibility criteria such as local connection rules.

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

- The Council has an approved Housing Allocations Policy which is written in accordance with legislation and Government guidance;
- Housing applications are submitted online and assessed for eligibility in accordance with the policy;
- Advertisements are accessible and up to date and allocations are made in accordance with the policy;
- There is a full audit trail of allocation decisions made; and
- Operational performance targets are maintained.

Scope for improvement was however identified in the following areas:

- The Council should investigate the possibility of a holding bay within Locata for additional scanned information later received in support of housing applications.

2.3 Community Safety – Substantial Assurance.

2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to continue co-ordinating the activities of the Dover District Community Safety Partnership (CSP), ensuring it achieves the objectives in the CSP Plan to make the district a safer place in which to live.

2.3.2 Summary of Findings

The Crime and Disorder Act 1998, Section 17 places an obligation on local authorities to consider crime, disorder, environmental issues affecting the local area and substance misuse for all their activities and to do all they reasonably can to prevent them. It also places a statutory duty on the police and local authorities to work together with key partners and agencies in partnership to formulate and implement local crime reduction strategies. The partners are required to identify local crime and disorder priorities, formulate strategies to reduce crime and monitor and

evaluate those strategies. As a result of this the Dover District Community Safety Partnership was created with a number of statutory agencies involved in promoting public safety, reducing anti-social behaviour and crime.

The Community Safety Partnership Executive Group are responsible for monitoring the partnership's progress and achievement against targets.

Complaints regarding anti-social behaviour are received by the Community Safety Unit. The Unit brings together Officers from the Council, Kent Police, Kent Fire & Rescue, KCC Community Wardens and other voluntary and community organisations who will work together to provide a joint resolution to issues that arise.

The Community Safety Partnership Officer is responsible for co-ordinating all partnership activities. In addition to this the Officer leads on all partnership projects, explores potential external funding opportunities, monitors government strategies, national good practice and provides general advice to the partnership on any developments in community safety and crime reduction.

Management can place Substantial Assurance on the system of internal controls in operation to ensure that the CSU and CSP meet their objectives and thus assist in ensuring that the Council meets its statutory responsibilities regarding community safety.

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

- The CSP Officer ensures that a CSP plan is produced each year and is approved by the DDCSP Executive Group.
- The CSP facilitates many projects that meet its objectives as well as reacting to current community safety concerns which have been raised through the CSU.
- The CSU and CSP publicise their work and ensure they engage the community when considering their priorities, planning their work for the following year and ensuring they demonstrate compliance with Section 17.
- The CSP receives good feedback from partners, Councillors and members of the public who are affected by community safety issues including ASB.
- The website pages for the CSU and CSP are up to date and provide comprehensive information to the public on anti-social behaviour and the work of the Council/Partnership.

2.4 Environmental Health & Safety at Work – Substantial Assurance.

2.4.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council is adequately fulfilling its responsibilities under the Health and Safety Act 1974.

2.4.2 Summary of Findings

The Health & Safety Executive (HSE) work with the Local Authority to enforce health and safety legislation. They ensure that duty holders manage the health and safety of their workforce and of those affected by their work.

In March 2011 the Government published 'Good Health and Safety, Good for Everyone'; this document set out the plans to refocus occupational health and safety

for Britain's businesses. As a result of this in May 2015 the framework for health and safety law was simplified to help businesses comply more easily. The Government made major changes and shifted its focus to concentrate on businesses in the higher risk industries and specific categories of risk, for example LPG and Legionnaires disease. The intervention regime was reviewed and new guidance was issued to assist Local Authorities to meet the requirements of the National Local Authority Enforcement Code.

The officers in the Public Protection Team who are involved in Health and Safety at Work have been provided with sufficient training to ensure that they are competent and are able to comply with the HSE requirements.

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

- Procedure notes have been created and are reviewed regularly to ensure that they reflect current working practices and the latest HSE guidance.
- All staff have been provided with the necessary training to ensure they are competent in dealing with health and safety at work.
- Relevant documentation and notes are recorded on each worksheet to provide a comprehensive record of the action taken for each inspection/intervention.
- There is a dedicated page on the Council's Internet site for health and safety at work; this provides information on the legislation along with a link to the Health and Safety Executive's (HSE) website.

2.5 Risk Management – Reasonable Assurance.

2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council adopts best practices in the identification, evaluation and cost effective control of risks to ensure that they are reduced to an acceptable level or eliminated, and also maximise opportunities to achieve the Council's vision.

2.5.2 Summary of Findings

Following the Priority Service Review during 2010, it was agreed that the Council would apply its risk management strategy to monitoring risks at a corporate and project level only. Corporate priorities will continue to be risk assessed as a fundamental part of the Governance process. Service / Day to Day risks are monitored as appropriate by individual departments.

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

- There are Established processes in place to monitor the corporate risk register at a CMT level.
- Supporting policies are in place to provide guidance to the risk management processes at a corporate level. This includes an agreed Risk Management Strategy and supporting processes.
- Members have had the appropriate training to be able to sit on the Governance Committee.

Scope for improvement was however identified in the following areas:

- The Corporate Risk Register is not regularly reported to Members via the Governance Committee. Whilst this is not specifically required by the terms of reference of the Committee, it is best practice to do so.
- There is no central list of corporate projects in place, to monitor and ensure that the officers responsible for corporate projects are updating their risk assessments as the projects develop, and that the risks are being communicated on a regular basis as part of the monitoring process.
- Outstanding 2015/16 business plans need to be submitted to the Head of Corporate Services so that the operational risks can be reviewed and where appropriate added to the corporate risk register.
- Copies of internal audit reports used to be sent to the Head of Corporate Services but this ceased some time ago. It may be beneficial to recommence this process in order that any high priority recommendations from internal reviews may be captured for consideration for inclusion on the corporate risk register; OR, at least to give those responsible for monitoring risk, an overview of the high level recommendations and issues being raised across the service areas of the Council as a result of the audits being carried out.

2.6 Public Health Burials – Reasonable Assurance.

2.6.1 Audit Scope

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

2.6.2 Summary of Findings

The requirement to arrange a funeral is for the protection of health and is provided for by law under Section 46 of the Public Health (Control of Disease) Act 1984. It is therefore the duty of the Council to bury or cremate the body of any person who has died or been found within their jurisdiction, in any case where it appears to the Council that no suitable arrangements have been or are otherwise being made.

Under this obligation the Council will deal with all aspects of the organisation of a state-assisted funeral i.e. registering the death; dealing with the undertakers and organising the details of the funeral; involving where possible, friends and relatives of the deceased in the process; and paying for the funeral. The Council will look to recover its expenses from any estate left by the deceased as a civil debt.

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

- There are clear documented procedures in place and officers are aware of the statutory requirements for the service.
- The undertaker fees are regularly reviewed to ensure best value is obtained.
- All reasonable steps are taken to identify the deceased's next of kin.

- Undertakers' costs are being recovered from the deceased's estate where there are sufficient funds.
- Appropriate referrals are being made to the Treasury Solicitor.

Scope for improvement was however identified in the following areas:

- There is a lack of a full management trail for cash and documentation seized from the deceased premises.
- It is not possible at present to reconcile the cash seized to that actually banked.
- The documented procedures require some updating to ensure they remain fit for purpose.

2.7 Employee Health, Safety & Welfare – Reasonable Assurance.

2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the policies and procedures established to protect the partner Council's staff in relation to various health and safety issues, such as lone working, home working and any relevant issues within the workplace, whilst also taking into account the legislative requirements placed upon the Council's as their employer and the confirm the role of the EKHR Health & Safety Advisors.

2.7.2 Summary of Findings

The Council is committed to achieving a high standard of health and safety compliance in all service areas through effective, proactive management and a co-operative effort at all levels. This undertaking will ensure, as far as is reasonably practicable, the health and safety of their employees and of others that may be affected by their acts or omissions. This includes the provisions of the Health & Safety at Work Act 1974 and all other regulations made under this and other relevant acts. The Council is assisted in this by EKHRP, who undertakes to provide each of the East Kent authorities with competent H&S advice and guidance to ensure their full compliance with Regulation 7 of the Management of Health and Safety at work Regulations.

The Health and Safety Project Group have carried out a considerable amount of work over the last couple of years to put in place health and safety processes across the Authority. Projects have been carried out on Departmental Risk Assessments, Lone Working and a Staff Risk Register. An ongoing project is in relation to staff training and ensuring that staff have completed the appropriate training courses. To assist in this a monitoring system has been put in place for all Corporate Training and this was recently reported to Corporate Management Team.

A new staff risk register has been implemented with guidance notes that explain the processes that have to be carried out. There are now 5 entries made on to the register (as at December 2015) following a recent email reminder that has been sent out to staff.

The Health and Safety Advisors at EKHR have in place an audit plan for each authority for the current year and the next two. The findings and recommendations are presented in a report to the Head of Service and Managers and a follow up review is also carried out to ensure that the recommendations have been actioned. The Council should consider implementing a formal reporting process, through the

Joint Health Safety and Welfare Consultative forum and its designated function, for the health and safety audits (including follow ups) so that Members and Senior Officers are aware of the issues that are impacting on the organisation and its employees, and what is being carried out or not being carried out to address the situations and risks. Alternatively, the quarterly management information report produced by EKHR could be developed to include this information.

Clarification over the responsibility for ensuring that staff are advised of changes to health and safety issues that are relevant to them and on EKHR's expected role regarding service delivery and reporting should be resolved.

2.8 Building Control – Reasonable Assurance.

2.8.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that Building Control procedures are operated in accordance with the Building Act 1984, and the organisation's Financial Regulations and approved policy.

2.8.2 Summary of Findings

From January 2016 the Building Control function has gone paperless with officers using handhelds with direct access into the Acolaid system whilst out on site along with the electronic management of workloads, applications and plans. For this to have happened, a considerable amount of work has taken place over the last 15 months along with buy in from staff to develop processes and carry out appropriate training.

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

- Established building control processes are in place and are being complied with in accordance with legislation.
- Partnerships are in place with various firms of architects with formal LABC agreements being put in place.

Scope for improvement was however identified in the following areas:

- Banking of income should be carried out on a daily basis in accordance with Financial Procedure Rules.
- The Acolaid system should be updated to reflect payments received from invoices that have been raised for building control services.
- Consideration should be given to introducing a charge for processing demolition notices. Additionally, inspections should be carried out to ensure that such works are carried out in accordance with the application.
- With paper files no longer being set up for new applications, there is a need to ensure that consistent file naming is in place on the documentation that is scanned into Idox and also for any information/notation that is shown on the other screens on Acolaid.

2.9 VAT – Limited Assurance.

2.9.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that VAT is completely and correctly accounted for in a timely manner in accordance with the prevailing legislation.

2.9.2 Summary of Findings

The Council applies output tax, where applicable, to the services it provides and reclaims input tax on expenditure. Like any other business the Council is required to keep account of both the VAT paid (input) and the VAT received (output) from its transactions and detail these in a monthly return to HMRC. The Council tends to pay more VAT than it receives which results in a net monthly refund from HMRC. The Council must observe VAT legislation and ensure the correct treatment of VAT as this, and effective recovery of VAT, impacts on Council budgets.

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

- The last partial exemption figure was calculated for 2012/13; this should be monitored and calculated annually at year end;
- A VAT inspection in March 2014 highlighted some incorrect treatment of VAT and reduced the Council's VAT recovery schedule by £89,666.32; this related mainly to grounds maintenance work supplied by KCC. KCC later accepted a separate VAT invoice allowing DDC to recover this amount; the error was however repeated the following period, thus highlighting a need to correct this from recurring.
- No sample testing of creditors and debtors is carried out during the VAT return process to ensure correct treatment of VAT on transactions;
- There is no VAT guidance or signposting available to staff on the intranet; and
- VAT training for spending officers outside of Finance is limited;
- Five actions agreed to in the previous audit have not been effectively and consistently implemented.

Effective control was however evidenced in the following areas:

- VAT returns are submitted within the HMRC deadlines;
- Creditors will only reclaim VAT where a proper VAT invoice is supplied; and
- 100% of the 12 creditor invoices selected and tested were found to be in order.

2.9.3 Management Response

Management are grateful to the audit team for raising their concerns.

Management have offered to have a further follow up meeting and have queried some aspects of the report. In particular, the following points are brought to the committee's attention.

- *The last partial exemption figure was calculated for 2012/13; this should be monitored and calculated annually at year end;*

The last partial VAT calculation showed that input VAT on exempt outputs constituted 1.2% of the total. This is only an issue when it approaches 5% of the total. This circumstance would only generally arise, for a district council such as Dover, when a major capital project is underway that will generate exempt outputs. An obvious example is the construction of a crematorium. The VAT accountant is also responsible for reviewing major capital projects in order to ensure that such potential issues are spotted. The calculation for 2014/15 has since been undertaken and has confirmed that DDC remains comfortably below the 5% at 1.46%.

- *A VAT inspection in March 2014 highlighted some incorrect treatment of VAT and reduced the Council's VAT recovery schedule by £89,666.32; this related mainly to grounds maintenance work supplied by KCC. KCC later accepted a separate VAT invoice allowing DDC to recover this amount; the error was however repeated the following period, thus highlighting a need to correct this from recurring.*

Clearly we want to have no VAT errors. This example is relevant, but it related to a specific issue and there was no overall loss to the Council and therefore does not illustrate a significant problem. The summary does not provide overall context. 100% of the 12 creditor invoices selected and tested during the audit were found to be in order. If there are significant concerns, then audit sampling has not revealed them.

Generally HMRC's VAT inspections have not identified systemic or fundamental problems and penalties have not generally (including the case above) been imposed on DDC by HMRC.

In addition, special exercises have been undertaken leading to additional VAT recovery recently of £30k VAT on postage and £10k VAT on car parking, in 2011 over £200k was reclaimed relating to the Fleming case for backdated claims and various other claims are currently lodged awaiting outcomes / settlement.

The total VAT recovered in 2014/15 was £3.88m across nearly 8000 transactions.

- *There is no VAT guidance or signposting available to staff on the intranet*

This is not correct. There is a VAT checker in place and the two Accountancy staff with specific VAT expertise are listed on the FH&C team page on the Intranet. The management view is that that signposting is not necessary in a small organisation like Dover where the finance team are known to all budget managers and within finance responsibility for VAT is clear.

Management consider that this level of information is sufficient and appropriate for the organisation. The VAT checker currently available is produced & maintained by our VAT advisors LAVAT. To provide more, a VAT manual would have to be produced & maintained in-house which would require significant resource to create and ensure on-going accuracy. In a small organisation with limited resources it is considered more appropriate for budget managers to discuss any issues with Finance rather than referring to a manual which would be at risk of becoming out of date if staff were unable to allocate sufficient resource to regularly updating it.

- *VAT training for spending officers outside of Finance is limited;*

There is a balance between too much & too little information. There is also a danger that any VAT training beyond the basics carries the danger that managers will assume they have greater expertise than is the case. Managers are encouraged to come to Finance for queries rather than using their own initiative and potentially getting things wrong, causing bigger problems. VAT reminders are included as part of budget manager training sessions as considered appropriate and when significant changes are made that need to be implemented across the organisation.

2.10 East Kent Housing Repairs, Maintenance and Void Management – Limited Assurance.

2.10.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Councils' housing stock is well maintained, providing a good level of service to Council tenants (which demonstrates value for money and tenant participation), in partnership with the Councils' contractors and in accordance with Council policy and procedures.

2.10.2 Summary of Findings

East Kent Housing (EKH) was appointed in April 2011 to manage the repairs and maintenance of the housing stock for Canterbury, Dover, Shepway and Thanet councils. The EKH Service provides repairs and maintenance support for 16,901 rented properties with a combined Revenue budget in the region of £15.25m.

From the testing completed during this review whilst most of the necessary controls were found to be in place, there were a number of key controls not working effectively, particularly around the inspection of completed repairs, and also planned maintenance work. It is therefore the conclusion of this review that management can currently only have limited assurance over the arrangements and controls in place to ensure that the Councils' housing stock is well maintained.

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

- The number of post inspections at Dover has not been increased to investigate higher than normal failure rates on responsive repairs.
- There are a significant number of variations to job costs at Dover by the contractor without documented approval from EKH.
- There are high numbers of repairs older than 30 days not being investigated at Dover.
- Work undertaken outside of the *Price Per Property* (PPP) contract at Canterbury is not normally being post inspected.
- Stock condition surveys across all four partner sites are out of date; this results in planned maintenance programmes being put in place based on out of date information.
- There is a lack of defined procedures in place for the post inspection of planned maintenance work resulting in confusion over roles and responsibilities. In terms of both informing officers of the work requiring inspection and then the reporting of inspection results.
- Charges for rechargeable works are not being raised and collected in three areas.

Effective control was however evidenced in the following areas:

- Sound procedures are in place for budgetary control and are well practiced in all four areas. Good lines of communication were found to be in place between EKH and the respective Accountants for both repairs and planned maintenance.
- Maintenance Inspectors in each area have a sound understanding of the main repairs contracts.
- Post inspections undertaken generally target work with a higher risk, or known problem areas.
- Area Maintenance Managers and Maintenance Inspectors have good working relationships with the repairs contractor.
- Regular meetings are held between officers and contractors to review performance and review ongoing problems.
- Budgets are monitored well and reported at suitable intervals.
- Tenants are suitably involved and informed in the repairs process.

Inspections of completed repairs are a requirement of the current maintenance contracts, and are a valuable management aid to test the quality of works undertaken by the contractors. Officers are expected to post inspect around 10% of completed jobs, and officers across each of the four areas normally achieve this. However, review of post inspections undertaken in the Dover area identified that from 817 inspections undertaken by EKH, 286 failed post inspection. Of those which failed, 176 failed on price related queries. Despite an overall failure rate of around 35%, officers continue to post inspect only 10% of the completed jobs.

Testing of a sample of 16 completed jobs identified that 6 jobs had been subject to a price variation of more than £150 which is allowed for within the contract, with no documented approval from the Dover based Maintenance Inspectors.

Officers in the Canterbury Area were found to be only inspecting work completed by the repairs contractor which falls under the Price Per Property (PPP) contract. Testing established that work outside of the PPP contract is not normally subject to any post inspection regime.

Review of procedures for the raising and collection of debts in respect of rechargeable works established the following;

- A backlog on the raising of debts at Dover;
- Debts are not raised at all at Canterbury;
- Debts are raised but not collected in Thanet; and.
- Debts have only been raised in Shepway since November 2014.

2.10.3 Management Response to the Housing Repairs, Maintenance and Void Management audit from the East Kent Housing Head of Operations

EKH welcomes the audit on the repairs, voids and planned maintenance service and the identified actions are being actively implemented, with one exception, where EKH has rejected one recommendation (increasing the number of post inspections at Dover on repair work).

The audit is a large piece of work affecting response maintenance, planned maintenance, void management and business planning over four Council areas. The audit looked at 51 key controls and found that 36 of the key controls were working

effectively. Of the 19 recommendations in the report, only 7 have been classified as high priority.

A detailed discussion has taken place on the audit and the recommendations and the priority attached to each one. Each of these areas has been agreed between audit and EKH. However, the overall rating of 'Limited' has been queried by EKH as the definition for a Limited Assurance level is defined as, "some of the necessary controls of the system are in place, managed and achieved." As 70% of the controls have been judged as working effectively EKH believes that a Reasonable Assurance reflects the outcome of the audit more correctly, which is defined as, "most of the necessary controls of the system in place are managed and achieved." Although this has been discussed with audit they feel that a Limited Assurance remains correct.

2.11 EK Services – Housing Benefit Quarterly Testing (Quarter 2 of 2015-16):

2.11.1 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.

2.11.2 Findings:

For the second quarter of 2015/16 financial year (July to September 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.

2.11.3 Audit Conclusion:

Forty benefit claims were checked and of these none had financial errors that impacted on the benefit calculation. One claim that passed did so however because the error that was detected did not affect the benefit calculation.

2.12 EK Services – Housing Benefit Quarterly Testing (Quarter 3 of 2015-16):

2.12.1 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.

2.12.2 Findings:

For the third quarter of 2015/16 financial year (October to December 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.

2.12.3 Audit Conclusion:

Forty benefit claims were checked and of these 1 (2.5%) had financial errors that did impact on the benefit calculation that were due to officer error. There was also 1 data quality error and 1 claim that had a financial error but did not impact on the benefit calculation. There was also 1 claim that had a system error that impacted on the benefit calculation.

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

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

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
a)	East Kent Housing – Tenant Health & Safety	See table below	See Below	See Below			
b)	Safeguarding Children & Vulnerable Groups	Limited	Reasonable	H M L	9 2 1	H M L	5 1 0
c)	Leasehold Services	Limited	Reasonable /Limited	H M L	12 12 3	H M L	4 6 1
d)	Tackling Tenancy Fraud	Not Applicable	Not Applicable	H M L	3 20 6	H M L	2 13 4
e)	EKHR – Payroll	Reasonable	Reasonable	H M L	0 1 2	H M L	0 0 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.

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

a) East Kent Housing – Tenant Health and Safety

A follow up review has been completed of Tenant Health and Safety. This area was previously reported upon in September 2014 and the progress review was programmed to allow time to ensure that the recommendations previously agreed have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. We updated the committee in March with an interim progress report, and at that time the assurance opinion was revised to Reasonable Assurance for Lift Maintenance; previously assessed with No assurance.

Further follow-up work commenced in June this year and comprised of a number of site visits which were undertaken at the same time as fieldwork for the Sheltered Housing audit. The follow-up was concluded in November 2015 with updated management responses received together with supporting evidence.

The original report contained 29 agreed management actions to reduce the identified risks of which 12 were completed at the time of the original review in August 2014. The table below shows how the remaining 17 recommendations were categorised and whether or not they have been implemented to date: -

Area	Original Assurance Level	Revised Assurance Level	No. of Recs.		Implem-ented	WIP
Policies	Not Applicable	Not Applicable	H	1	0	1
Lift Mtce	No	Reasonable	H	1	1	0
Gas Safety	Substantial	Substantial	L	1	0	1
Fire Safety	Limited	Limited*	H	11	9	2
			L	2	2	0
Asbestos	Reasonable	Reasonable	L	1	0	1

Of these 17 recommendations significant progress has been made towards their implementation. The remaining two high-risk recommendations are now escalated to this committee, see Annex 1.

*A significant amount of work has been undertaken in the area of fire safety which is commendable. All of the critical barriers and obstacles – which previously gave rise to the limited assurance opinion – have now been removed and work is in progress to fully implement the agreed recommendations. The direction of travel is therefore undoubtedly a positive one. It would however be somewhat premature to increase the assurance level to Reasonable until the recommendations have had further time to embed; once this has been achieved, the assurance level can however be increased to reasonable.

c) East Kent Housing – Leasehold Services:

There were a host of issues that needed to be addressed in order to demonstrate that the control environment had improved sufficiently to warrant a revised assurance opinion. This progress report recognises that management have taken positive action to strengthen the control environment but that Management need time to embed the controls before the next audit on this subject area.

The assurance level that was given in the original audit was Limited and as a result of the follow up audit review being carried out the assurance level is increased to Partially Limited. Management can place Reasonable Assurance on the controls in place for calculating the service charges and Limited Assurance on the controls in place for issuing section 20 notifications.

Of the 28 recommendations that were originally agreed three high priority recommendations relating to Section 20 Notifications had been implemented but this follow up Audit scope tested the Actuals produced in September 2015 rather than the notices being served since April 2015. Any improvements in control will not be evident until September 2016. This has contributed to the Partially Limited Assurance opinion.

Management Response:

East Kent Housing is pleased with the progress noted in this follow up Audit. We feel confident that the changes made to the Section 20 process have resulted in a significant improvement in the quality, quantity and accuracy of the notices being served on Leaseholders including improvements to supporting information and the way that queries are being handled. We look forward to demonstrating these improvements through the Audit of the leasehold service that is due in 2016.

4.0 WORK-IN-PROGRESS:

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Housing Allocations, Equality and Diversity, Procurement, Electoral Registration and Election Management, Dog Warden and Street Scene Enforcement, Grounds Maintenance, and Members' Code of Conduct & Standards Arrangements.

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 quarterly 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 nine-month period to 31st December 2015, 155.14 chargeable days were delivered against the planned target of 270, which equates to 57% 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 31 st December 2015 against the agreed 2015/16 Audit Plan.
Annex 4	EKAP Balanced Scorecard of Performance Indicators to 31 st December 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>East Kent Housing – Tenant Health & Safety (November 2015):</i>		
EKH should introduce a quarterly performance indicator to report on the number of Fire Risk Assessments which are overdue review, (categorised as High, Medium and Low priority).	<p>Exception reporting to be carried out quarterly</p> <p>We will develop an annual H&S assurance statement (based on the governance statements provided to the councils) which will ensure that all Health and safety actions are carried out and signed off by the appropriate officer. This will be reported to management team half yearly and to the Board annually as part of the Corporate Health report in July.</p> <p>Responsibility/Completion date.</p> <p>31.12.14</p>	<p>Follow up Findings as at Nov 2015</p> <p>All FRA are completed and available on the EKH shared "R" drive. The Asset Management Administration Team are developing the existing (Savills) data base by which EKH can monitor the FRA works completed, fully implemented by December 2015. The updating of the spreadsheet by EKH to reflect completed works will be an ongoing exercise</p> <p>Since signing to the HUB framework Savills has supported EKH, including the task to reevaluate all FRA's review dates and amend according to the building risk rating. Buildings due FRA reviews will be programmed for completion by February 2016.</p> <p>Conclusion:</p> <p>Work is ongoing towards implementation.</p>
EKH should ensure that all recommendations arising from the 2013 & 2014 Fire Risk Assessments carried out by Savills are resourced so they are implemented within the timescales suggested in each individual Fire Risk Assessment.	<p>Agreed Management Action.</p> <p>A meeting with Savills has been held to develop a work schedule. This will feed into the Councils' budget planning process in the autumn.</p> <p>Responsibility/Completion date.</p> <p>30.09.14</p>	<p>Follow up Findings as at Nov 2015</p> <p>EKH's proposal to manage fire precautions was issued to each of the 4 Client Officers for approval (eg to CCC June 15).</p> <p>Amended fire precaution budgets secured for 2015/16 and agreement from the 4 councils to use existing contracts for 2015/16.</p> <p>2015/16 works programmes issued by EKH to existing contractors (Mears and PJC) w/c 2</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.
		<p>November with assurances that will be delivered by 31 March 2016.</p> <p>Dedicated Clerk of Works (Fire Precautions) to be appointed on an initial 2 year fixed term contract as agreed, and jointly funded, by 4 councils. EKH finalising job evaluation with EKHR with target to go to advert in December 2015.</p> <p>Fire Precaution Contract (all areas) – tender documents being produced with Savills to provide technical specifications and pricing models. Target to issue tender documents in January 2016 and award new contracts in April 2016.</p> <p>Canterbury Fire Door Contract – procurement in progress; PQQ evaluation completed and currently at ITT stage. Expect to award contract January 2016.</p> <p>Conclusion:</p> <p>Work is ongoing towards implementation.</p>
<i>Safeguarding Children and Vulnerable Groups – November 2015:</i>		
Clarification should be received from EK Housing that their Safeguarding Children Policy 2012 has been reviewed and that staff have been made aware of any changes and that staff have also received the appropriate training in accordance with the policy during the course of each	The Designated Child Protection Officer will contact EK Housing and EK Services to ensure that they are meeting the requirements of Dover District Council in respect of policies being up to date, staff training and reporting of any issues that they observe. The outcomes of this will be reported to CMT. If information is	This is a Section 11 Children Act 2004 requirement. Arrangements have been made in the CMT Agenda for updates to be delivered to the CMT by the Designated Officer at least annually. This will include information received from partners so that an assurance can be given that they are complying with legislation.

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.
financial year. The same may apply to EK Services and if so the recommendation should also include them.	<p>not forth coming then request should be escalated up to the Board of Directors at EK Housing via CMT.</p> <p>Responsibility / Completion Date</p> <p>DDC Designated Child Protection Co-Ordinator/ CMT -December 2014</p>	<p>Conclusion</p> <p>Recommendation is ongoing.</p>
The PQQ needs to be updated to reflect the change of name in the checking process from CRB to DBS and also to include a confirmation that either the tendering company has a child protection policy in place (if applicable to the works they are tendering for) and provides a copy for the Designated Protection Co-Ordinator to review; or if they do not have a policy in place that they would sign up to the Council's policy and a copy should be provided to them and a declaration confirming that they are signing up to it.	<p>The PQQ, where applicable for the works being carried out, will be revised to seek this information and relevant policies will be presented to the Designated Child Protection Officer for them to review and seek further information when required so that the authority has an assurance that contractors are complying with legislation.</p> <p>Responsibility / Completion Date</p> <p>Director of Environment and Corporate Assets/ DDC Designated Child Protection Co-Ordinator</p>	<p>Ongoing, as refers to action required when contract agreed.</p> <p>Conclusion</p> <p>Recommendation is ongoing.</p>
As part of the Council grant application process, (that all services should follow) there should be incorporated into it checks and also a condition of the grant that the applying body / organisation have in place (where applicable for the grant) the appropriate child protection and safeguarding vulnerable groups policies and that their staff have received the appropriate training.	<p>Agreed, as a proportionate response. Where appropriate for the type of grant, checks will be incorporated into the condition of the grant process to ensure that appropriate child protection and safeguarding policies are in place.</p> <p>Responsibility / Completion Date</p> <p>All Heads of Service / Director of Governance /</p>	<p>Agreed, as a proportionate response. Where appropriate for the type of grant, checks will be incorporated into the condition of the grant process to ensure that appropriate child protection and safeguarding policies are in place.</p> <p>Conclusion</p> <p>Recommendation is ongoing.</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.
	DDC Designated Child Protection Co-Ordinator - 31 December 2014	
EKHR should provide quarterly reports advising the Designated Child Protection Co-Ordinator of what training has been carried out and who has attended or has completed the online training.	<p>See Recommendation 10 above.</p> <p>Responsibility / Completion Date</p> <p>Head of EK Human Resources/ DDC Designated Child Protection Co-Ordinator</p>	<p>The Director of Governance has ensured that training requirements for safeguarding children and vulnerable adults, together with that for equalities, H&S, Data Protection, S17 and other corporate requirements have been communicated to staff with a deadline of October for them to be completed. Reporting on who and who has not completed the training will be requested and staff to chased for completion.</p> <p>Conclusion</p> <p>Recommendation is ongoing.</p>
A reminder process should be put in place so that staff that have yet to complete the appropriate training, are requested to do so by a certain date or that they would face consequences for not complying with the instruction which could ultimately lead to disciplinary action being carried for non-compliance with corporate instructions. (This should be for both current employees and new starters).	<p>See Recommendation 10 above.</p> <p>Responsibility / Completion Date</p> <p>CMT / DDC Designated Child Protection Co-Ordinator / Chief Executive</p>	<p>The Director of Governance has ensured that training requirements for safeguarding children and vulnerable adults, together with that for equalities, H&S, Data Protection, S17 and other corporate requirements have been communicated to staff with a deadline of October 2015 for them to be completed.</p> <p>Conclusion</p> <p>Recommendation is ongoing.</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>Leasehold Services – January 2016:</i>		
<p>EKH Recommendation 3 (Generic)</p> <p>Part I) Investigate whether the system that produces the annual reports (containing individual jobs) can be amended so that when the reports are printed and passed to the leaseholder section the jobs are grouped and categorised inline with the job categories laid out on the leaseholder statements. This will make reconciliation more meaningful to the leaseholder section which should improve the effectiveness of the process ensuring more effective use of resources.</p> <p>Part II) As part of this investigation in Part I) a conscious decision should be made as to whether the leaseholder job categories laid out on the leaseholder statements are a) appropriate for Leaseholders and b) whether there would be merit in standardising all the leaseholder job categories across all four sites.</p> <p>Part III) Dependant on the outcome of Part I) and Part II) training should be given to all staff who input jobs on to the system to ensure the correct categories are being used and that the recorded job narrative gives the</p>	<p>Agreed Management Action Weakness in the systems and poor interfaces impede effectiveness in this area and will not be resolved until a single system is in place.</p> <p>Part I) Establish a task and finish group (leasehold/systems/asset) to explore interim improvements in processes.</p> <p>Part II) Dependant on Part I and CWH report. Need to consult with councils on changes to statements.</p> <p>Part III) Agreed, will progress this ahead of Part I & II, will work in collaboration with Mears. And roll out further training if required after changes to job categories, reporting etc.</p> <p>Responsibility/Completion date EKH Leasehold Manager & EKH Head of Asset Management. Systems Manager. June 2015 & Group set up end of December.</p>	<p>Progress Update This recommendation is outstanding with an intention to action.</p> <p>East Kent Housing is in the process of building a new system which will eventually satisfy this audit recommendation. No other action will be taken until new system implemented in approximately April 2017.</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.
leaseholder section enough detail to explain to leaseholders exactly what works have been carried out.		
EKH Recommendation 6 (Generic) Ensure the process for issuing Section 125 Notifications and issuing Section 20 Notifications both in retrospect of emergency works and in advance of scheduled works is robust and well documented to ensure all staff (including asset management) are aware of the process.	Agreed Action: <i>'Also raised in CWH recommendations, will be working alongside CWH to implement their process notes and map the whole process across both Asset & leasehold teams much more clearly. Development of EKH procurement plan will also aid improved performance in this area. Recent issues have highlighted the need for training of asset staff regarding the implications to leaseholders of emergency or adjusted works. Training has already commenced in this area and will be continued, including a phase of training after the processes redefined.'</i> Proposed Completion Date: May 2015 Responsibility: <ol style="list-style-type: none"> 1. EKH Leasehold Manager & Asset Manager 2. EKH Head of Asset Management – ongoing 	This recommendation has been implemented is marked as outstanding because it cannot be tested until September 2016. The Leaseholder Team are now responsible for and are in control of the entire Section 20 Notification process. This follow up Audit scope tested the Actuals produced in September 2015 rather than the notices being served since April 2015 therefore this was not tested. EKH Management are confident this will be demonstrated as adequately working when the next Audit is carried out on the Actuals produced in September 2016. Revised Implementation Date September 2016.
EKH Recommendation 7 (Generic) To adopt a new process for Section 20	Agreed Action: <i>'Part I)</i> <i>Currently not able to put system triggers in</i>	This recommendation has been implemented is marked as outstanding because it cannot be

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.
<p>Notifications as follows:-</p> <p>Part I) EKH should calculate and set up Section 20 Notification trigger points for each block containing leaseholders by working out and deciding what estimated block cost should trigger Section 20 consultation. This can be done by taking the charging proportion on each lease in each block and working out the maximum block cost before Section 20 Notifications need to be sent. (i.e. if a leaseholder's charging proportion is 1x 10th of the block cost then the maximum trigger point would be £2,500 but probably £2,000 to allow for a margin of error).</p> <p>Part II) Once the trigger points have been established for each individual block across all four sites, these trigger points should be passed to Asset Management who would then be responsible for using the trigger points to identify which jobs need to be consulted on when calculating the estimated cost of works. Asset Management would then need to liaise with the Leaseholder Manager who will organise the Section 20 Notification process.</p>	<p><i>place, but will be incorporated in the single system. Leasehold team to ensure they are considered in the specification & selection criteria of new system.</i></p> <p><i>Part II)</i> <i>However, need process triggers/ training for asset staff in the meantime. As stated above this training has already commenced and will continue to be delivered to asset staff addressing the issue of needing to increase "leasehold awareness" of repairs /inspections/surveyors/ contractors.</i></p> <p><i>Part III)</i> <i>Agreed, will incorporate in agreed process a review. Annual meeting could also discuss annual procurement plans and map potential work in year ahead to aid better planning.'</i></p> <p>Proposed Completion Date: May 2015</p> <p>Responsibility:</p> <ol style="list-style-type: none"> 1. EKH Leasehold Manager & Asset Manager 2. EKH Head of Asset Management – ongoing 	<p>tested until September 2016.</p> <p>A new process has been mapped and successfully piloted at Shepway. All new Section 20 process will now follow the new process.</p> <p>The testing carried out across all four sites demonstrated that overall the controls in place have strengthened. However there is still a significant weakness in the Section 20 processes in place which means that the process and procedures are still inadequate in this particular area. EKH Management is confident this will be working next year.</p> <p>Revised Implementation Date September 2016.</p>
EKH Recommendation 10 (Dover & Shepway)	<p>Agreed Action: <i>Process will be mapped as part of the CWH</i></p>	<p>Progress Update This recommendation has been implemented is</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.
Introduce a formal process strengthening the links between Asset Management and Leaseholder Services whereby any in-year variations in excess of 10% (estimates / actuals) trigger an action which ensures the variance is communicated to leaseholder services (and to accountancy at Dover and Shepway if appropriate) in order to allow for adequate leaseholder consultation and appropriate billing adjustments.	<p><i>review of procedures. Service review also suggests clear division of roles and responsibilities between Leasehold/ Housing Management & Asset team with regards to leaseholder management. Further training for asset staff to be undertaken by January 2015 – see recommendation 7.</i></p> <p>Proposed Completion Date: May 2015</p> <p>Responsibility:</p> <ol style="list-style-type: none"> 1. EKH Leasehold Manager & Asset Manager 2. EKH Head of Asset Management – ongoing 	<p>marked as outstanding because it cannot be tested until September 2016.</p> <p>A new process has been mapped and successfully piloted at Shepway. All new Section 20 process will now follow the new process.</p> <p>The testing carried out across all four sites demonstrated that overall the controls in place have strengthened. However there is still a significant weakness in the Section 20 processes in place which means that the process and procedures are still inadequate in this particular area. EKH Management is confident this will be working next year.</p> <p>Revised Implementation Date September 2016.</p>
<i>Tackling Tenancy Fraud – January 2016:</i>		
EKH and the four member authorities should ensure that once approved the <i>Tenancy and Housing Fraud Policy</i> is effectively communicated to all EKH staff, contractors and the allocations teams at each of the four member authorities.	<p>Agreed. EKH will develop a consultation package that includes how the content of the policy is disseminated to all EKH staff, key staff outside of the organisation and partner agencies and contractors. These will include officers in Housing Options, Legal, EKS and SDC benefits service, tenant representatives and the Board.</p> <p><u>EKH staff training.</u> All Neighbourhood Managers received tenancy fraud training in 2011. This will be updated to</p>	<p>Due to staffing and structure changes there has been some slippage on the delivery of the new Tenancy Fraud Policy and procedures.</p> <p>A Project Initiation Document (PID) has been documented for the Tenancy Fraud Policy. The aim of the project being to review tenancy fraud audit and scrutiny reports, building recommendations into a new tenancy fraud policy and strategy; and to review and evaluate investigation services provided by other organisations and identify options that provide</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.
	<p>reflect changes in legislation. EKH will ensure that all front line staff who have roles that impact on the prevention and detection of tenancy fraud receive the following: -</p> <ul style="list-style-type: none"> • Coverage of tenancy fraud detection and prevention at induction • Briefing and training regarding new tenancy fraud policy <p>Formal training on the investigation and detection of tenancy fraud.</p> <p>Proposed Completion Date and Responsibility: EKH Policy Officer to develop consultation plan for policy. EKH Head of Corporate Services to reflect this in EKH training plan, training to be delivered by March 2016</p>	<p>best value for money for EKH and the councils.</p> <p>EKH's current operation practice for the awareness and prevention of tenancy fraud was selected for review by the Tenant Scrutiny Panel. The review was completed between September and October 2015. Seven recommendations were made by the panel, of which six can be accepted. The remaining recommendation was in relation to the fraud team within EK Services and can not be actioned as the service transfers to the Department of Work and Pensions from 01/12/2015. The proposal is that EKH develop a work plan to complete these actions, a copy of which will be provided to the panel for them to monitor.</p> <p>The PID milestone chart proposes to deliver the presentation of the draft Tenancy Fraud Report and report with clear recommendations to the EKH Board and the four Councils March 2016. Further work would then be undertaken on the implementation of the strategy and action plan.</p> <p>When the Tenancy Fraud Policy and action plan have been agreed a communication and training strategy will be developed and delivered during 2016/2017.</p> <p><i>Recommendation Outstanding</i></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.
		To be delivered during 2016/2017, therefore due date for completion is revised to 31/03/2017.
EKH should liaise with the four member authorities to identify what resource will be available for the investigation of housing fraud and establish what facilities for reporting potential housing fraud will be used following the transfer of current Benefits Fraud Investigation staff to the DWP under the Single Fraud Initiative. By maintaining some fraud investigation resource the member authorities could then consider providing a fraud investigatory service to housing associations in their districts in return for nomination rights to homes recovered.	<p>Agreed. This issue will be raised with joint client officers by EKH Chief Executive and the Operations Manager.</p> <p>Proposed Completion Date and responsibility:</p> <p>EKH Chief Executive and Director of Operations and Business, August 2015.</p>	<p>EKH have identified that there is currently no capacity, resource or skills for adequate fraud investigation internally within EKH. In addition, there are no dedicated tenancy fraud investigation resources with EK Services or Shepway District Council. As part of the Tenancy Fraud Policy project (see findings for recommendation 2) EKH is currently reviewing and evaluating investigation services provided by other organisations, for example Gravesham Investigation Services, in order to identify the option that provides best value for money for EKH and the four councils.</p> <p>Fraud referral procedures will be determined and implemented during 2016/2017 when the Tenancy Fraud Policy has been approved and investigated resources identified.</p> <p>Options for tenancy fraud investigation resources are being investigated, with informed options to be proposed to the EKH Board and the four Councils in March 2016.</p> <p>Recommendation Outstanding</p> <p>Due Date Revised to 30/04/2016.</p>

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
EK Human Resources; Sickness Absence, Leave & Flexi	December 2015	Reasonable/ Limited	Spring 2016
East Kent Housing - Sheltered and Supported Housing	December 2015	Limited	Spring 2016
East Kent Housing – Repairs, Maintenance and Void Management	March 2016	Limited	Spring 2016
VAT	March 2016	Limited	Summer 2016

PROGRESS AGAINST THE AGREED 2015-16 AUDIT PLAN.

DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12- 2015	Status and Assurance Level
FINANCIAL SYSTEMS:				
Capital	5	5	4.28	Finalised - Reasonable
Bank Reconciliation	5	5	4.7	Finalised - Substantial
VAT	10	10	13.95	Finalised - Limited
RESIDUAL HOUSING SYSTEMS:				
Housing Allocations	10	10	8.3	Substantial
GOVERNANCE RELATED:				
Shared Service Monitoring	10	15	1.32	Work-in-progress
Equality & Diversity	10	10	0.17	Work-in-progress
Risk Management	10	10	6.46	Finalised - Reasonable
Corporate Advice/CMT	2	2	2.77	Work-in-Progress throughout 2015-16
s.151 Meetings and support	9	9	8.88	Work-in-Progress throughout 2015-16
Governance Committee Meetings and Reports	12	12	10.32	Work-in-Progress throughout 2015-16
2016-17 Audit Plan Preparation and Meetings	9	9	3.88	Work-in-Progress
CONTRACT RELATED:				
Procurement	10	10	0.34	Work-in-Progress
SERVICE LEVEL:				
Community Safety	10	6	5.84	Finalised - Substantial
Dog Warden and Street Scene Enforcement	10	10	1.87	Work-in-progress
Electoral Registration and Election Management	10	15	0.17	Work-in-progress
Environmental Protection Service Requests	8	8	7.9	Finalised - Substantial
Public Health Burials	6	6	7.8	Finalised - Reasonable
Port Health	10	0	0.20	Postpone until 2016-17
Environmental Health & Safety at Work	10	10	5.55	Finalised - Substantial

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2015	Status and Assurance Level
Licensing	10	0	0.2	Postpone until 2016-17
Printing & Post	7	7	1.33	Finalised - Substantial
Grounds Maintenance	10	10	1.35	Work-in-progress
Dover Museum and VIC	10	10	17.14	Finalised - Substantial
Commercial Properties and Concessions	10	10	0.17	Work-in-progress
Building Control	10	10	5.33	Finalised - Reasonable
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	6.09	Work-in-Progress throughout 2015-16
UNPLANNED				
Members' Code of Conduct & Standards Arrangements	0	10	0.39	Work-in-Progress
Flooding Repair and Renew Grants	0	2	1.62	Finalised
FINALISATION OF 2014-15- AUDITS				
Absence Management	5	7	3.42	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	0.12	Work-in-Progress
Payroll	5	5	0	Work-in-Progress
Employee Health & Safety	5	5	8.94	Finalised - Reasonable
TOTAL	270	271.32	155.14	57% as at 31st December 2015

EAST KENT HOUSING LIMITED:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2015	Status and Assurance Level
Planned Work:				
Audit Ctte/EA Liaison/Follow-up	6	6	14.49	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	41.04	Finalised - Limited
<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	93.7	118% at 31-12-2015
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 31-12-2015	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	0.31	Work in progress
Business Rate Credits	15	15	0.33	Work in progress
Debtors	15	15	0.34	Work in progress
ICT – PCI DSS	12	12	6.78	Work in progress
ICT – Management & Finance	12	13	0.47	Work in progress
ICT – Disaster Recovery	12	12	0.34	Work in progress
Corporate / Committee /follow up	9	15	11.53	Work in progress throughout 2015-16
DDC / TDC Quarterly Housing Benefit Testing	40	40	33.77	Work in progress throughout 2015-16

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2015	Status and Assurance Level
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	68.05	45% at 31-12-2015

BALANCED SCORECARD – QUARTER 3

<u>INTERNAL PROCESSES PERSPECTIVE:</u>			<u>FINANCIAL PERSPECTIVE:</u>		
	<u>2015-16 Actual</u>	<u>Target</u>		<u>2015-16 Actual</u>	<u>Target</u>
	Quarter 3		Reported Annually		
Chargeable as % of available days	89%	80%	• Cost per Audit Day	£	£321.33
Chargeable days as % of planned days			• Direct Costs (Under EKAP management)	£	£412,450
CCC	87%	75%	• Indirect Costs (Recharges from Host)	£	£11,700
DDC	57%	75%	• ‘Unplanned Income’	£	Zero
SDC	78%	75%	• Total EKAP cost	£	£424,150
TDC	89%	75%			
EKS	45%	75%			
EKH	118%	75%			
Overall	76%	75%			
Follow up/ Progress Reviews;					
• Issued	36	-			
• Not yet due	27	-			
• Now due for Follow Up	50	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS)	Partial	Full			

BALANCED SCORECARD – QUARTER 3

<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 3			Quarter 3	
Number of Satisfaction Questionnaires Issued;	64		Percentage of staff qualified to relevant technician level	88%	75%
Number of completed questionnaires received back;	20		Percentage of staff holding a relevant higher level qualification	43%	32%
	= 31 %		Percentage of staff studying for a relevant professional qualification	25%	13%
Percentage of Customers who felt that;			Number of days technical training per FTE	3.14	3.5
<ul style="list-style-type: none"> Interviews were conducted in a professional manner 	100%	100%	Percentage of staff meeting formal CPD requirements	43%	32%
<ul style="list-style-type: none"> The audit report was 'Good' or better 	100%	100%			
<ul style="list-style-type: none"> 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.

Subject:	INTERNAL AUDIT CHARTER AND 2016/17 DRAFT PLAN
Meeting and Date:	Governance Committee – 24th March 2016
Report of:	Christine Parker – Head of Audit Partnership
Decision Type:	Non-key
Classification:	Unrestricted
Purpose of the report:	This report presents the Audit Charter for approval for the next three years and sets out the proposed Internal Audit Plan for 2016/17 detailing a breakdown of audits and an analysis of available days.
Recommendations:	That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years. That Members approve the Council's Internal Audit Plan for 2016/17

Summary.

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

1. Introduction and Background.

- 1.1 The purpose of the Council's Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.2 In accordance with current best practice, the Governance Committee should "review and assess the annual internal audit work plan". The purpose of this report is help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with the professional standards for Internal Auditors.

2.0 Audit Charter.

- 1.1 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.
- 1.2 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.

- 1.3 The Audit Charter is attached as Annex A to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it is suggested that this be approved for the next three years (to 31st March 2019) with the caveat that should any significant changes be required a revised Charter will be presented for consideration.

3.0 Audit Plan.

- 3.1 The Audit Plan for the year 2016 to 2017 is attached as Annex B and has the main components to support the Audit Charter. The plan is produced in accordance with professional guidance, including the PISAS 2013. A draft plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Then following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next have been made.
- 3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.
- 3.3 Naturally there are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a three-year cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a three-year strategic plan has been included.
- 3.4 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2016/17 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle. If it is approved as currently drafted a number of audits will fall outside of the rolling three year plan, these are listed at the foot of Annex B, and total 163 days.
- 3.5 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2016/17 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.
- 3.6 The risk assessment and consultation to date has resulted in;
- | | |
|-----|--|
| 78% | Core Assurance Projects- the main Audit Programme |
| 4% | Fraud Work – fraud awareness, reactive work and investigating potential irregularities |

0% Corporate Risk – testing the robustness of corporate risk mitigating action
 18% Other Productive Work – Corporate meetings, follow up, general advice, liaison
 Total number of audits 23.

For 2016/17 the days available for carrying out audit is 270 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review all of the high risk areas and all of the medium risk areas this equates to 23 audits.

- 3.7 There are 163 days required to backfill the audits that are outside of the strategic cycle. In 2014/15 the s.151 Officers agreed that savings achieved in the delivery of the EKAP service should be used to address the shortfall in the strategic plan, and deliver as many reviews as possible. Thus any financial savings are converted into audit days and identified areas for review agreed with the s.151 Officer in the quarterly meetings as the year unfolds. This will strengthen the Internal Audit coverage and Members will have greater assurance that the systems of internal control are being regularly reviewed.

4.0 **Benchmarking the level of Internal Audit Provision.**

- 4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district council's within Kent is circa 400 days annum. The audit plan of Dover District Council of 270 days plus their share of the EKS and East Kent Housing audit plans totals 350. The Dover plan is therefore 12.5% less well-resourced than the Kent average.

5.0 **Head of Internal Audit's Opinion of the 2015/16 Internal Audit Plan.**

- 5.1 This report is presented to Members by the Council's Director of Finance whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.
- 5.2 It is therefore the professional opinion of the Head of the East Kent Audit Partnership that the draft 2016/17 internal plan presented for Members consideration is less well-resourced than the Kent average and accordingly our overall audit opinion at the end of the year will be limited to commenting on the systems of internal control that have been examined. The Head of the East Kent Audit Partnership recommends that Members either approve the 2016/17 internal audit plan as drafted or that they recommend to Cabinet that additional resources are allocated to bring the plan up to the Kent average. This would require an additional 50 days per annum, which at an estimated cost per audit day of £300 would cost £15,000 per annum. All EKAP savings achieved in 2015/16 will be used to buy back some of these days. In 2015/16 it was possible to deliver an additional 11.18 days from savings generated by EKAP in 2014/15

6.0 **Background Papers.**

- Internal Audit Annual Plan 2015/16 - Previously presented to and approved at the March 2014 Governance Committee meeting.

- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Previous Audit Strategies - Previously presented to and approved at Governance and Audit Committee meetings.

Attachments

Annex A East Kent Audit Partnership Charter
Annex B Dover District Council draft 2016/17 Internal Audit Plan

CHRISTINE PARKER
Head of Audit Partnership

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



EAST KENT AUDIT PARTNERSHIP AUDIT CHARTER

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9. Amendment to Charter

1 Introduction

- 1.1 This Charter establishes the purpose, authority, objectives and responsibility of the Audit Partnership, in providing an Internal Audit function within the Partner Councils.
- 1.2 The EKAP is committed to the highest standards and prides itself on complying with the definition of Internal Auditing the ethical codes that the profession requires and adopting the International standards.
- 1.3 The Audit Partnership is hosted by Dover District Council. The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Shepway District Council (SDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.
- 1.4 The Audit Partnership is sufficiently independent of the activities that it audits, and this enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.
- 1.5 The organisational status of the Audit Partnership is such that it is able to function effectively. The Head of Audit Partnership must be able to maintain their independence and report to members. The Head of Audit Partnership has sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with the senior management and audit committees of the individual partners.
- 1.6 Accountability for the response to the advice and recommendations of the Audit Partnership lies with each partner's own management.
- 1.7 The Audit Partnership reports to those committees charged with governance. The main objective is to independently contribute to the councils' overall process for ensuring that an effective internal control environment is maintained. The work of the Audit Partnership for each of the partner authorities is summarised into an individual annual report, which assists in meeting the requirements to make annual published statements on the internal control systems in operation.

2 Terms of Reference

2.1 Strategy & Purpose

Internal Audit is a statutory requirement under the Local Government Act 1972 (Section 151). It is the strategy of the Audit Partnership to comply with best practice as far as possible. The East Kent Audit Partnership has therefore adopted the best practice principles set out in the Public Sector Internal Audit Standards (PSIAS). The definition of Internal Audit taken from their guidance is as follows:

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an

organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

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

2.2 Responsibility & Scope

2.2.1 Internal Audit is responsible for appraising and reviewing:

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

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

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

2.2.3 In addition, the Audit Partnership may carry out special investigations as necessary, and agreed with the s.151 Officer or Monitoring Officer as appropriate, in respect of cases of fraud, malpractice or other irregularity, or carry out individual ad hoc projects as requested by management and agreed by the Head of Audit Partnership and the partners' client officer.

2.2.4 Assurance to third parties may be agreed, by the Head of Audit Partnership with the relevant s.151 Officer on a case by case basis; such as acting as the First Level Controller for Inter Reg Grant Claims. The rate charged to a third party for assurance work is set by the Joint s.151 Client Officer Group at £375 per audit day. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do

so, the nature of this work may include, for example the verification of claims or returns.

- 2.2.5 The decision to undertake consultancy services will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. The EKAP is able to avoid conflicts of interest if carrying out consultancy work due to the flexibility of the arrangements, as auditors may be rotated accordingly. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include for example, being involved on project teams for new systems development. There are no contingency provisions within the agreed audit plans, therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any consultancy work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource to back-fill whilst partnership staff carry out the assignment.

2.3 Authority

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

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

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

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

- 2.3.2 The Audit Partnership is authorised to complete a programme of audit reviews within the Partner Councils through the delegation of powers to Dover District Council, as the Lead body for the Audit Partnership.

- 2.3.3 The Head of Audit Partnership works principally with a nominated officer, the s.151 Officer, for each of the Partner councils, to ensure that a continuous internal audit review of the accounting, financial and other operations of the Council is performed. Progress on the work undertaken shall be submitted regularly to the appropriate committee with responsibility for Internal Audit.

- 2.3.4 All employees and Councillors shall comply with the requirements of the Council's internal and external auditors who have authority to:-

- a) enter at all reasonable times on any Council premises or land,
- b) have access to all Council assets such as records, documents, contracts and correspondence, including computer hardware, software and data,
- c) require and receive such explanations as are necessary concerning any matters under examination, and
- d) require any employee of the Council to produce cash, stores or any other Council property under his/her control.

2.3.5 Employees and Councillors of any of the Partners may report any financial irregularity or suspected irregularities to the Head of Audit Partnership, who shall then ensure that the matter is dealt with in accordance with the individual council's Anti Fraud and Corruption Strategy.

2.4 Avoiding Conflicts of Interest

2.4.1 An additional benefit of four councils working in partnership to provide an internal audit service, is providing sufficient staff to give flexibility and the opportunity for the rotation of Auditors. Where consultancy projects are requested and agreed, conflicts of interest will be avoided by preventing the Auditor undertaking that project from reviewing that area of operation for a period of time equivalent to current year plus one (see also paragraph 3.2 below). The EKAP provides a pure audit arrangement and does not have any "non audit" or operational responsibilities that would otherwise have the potential to cause a conflict of interest.

3 Organisational Relationships and Independence

3.1 Audit Partnership Management and Staffing

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

3.2 Relationship with Service Managers

3.2.1 It is the responsibility of management, not auditors, to maintain systems of internal control.

3.2.2 To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not review an area they were previously operationally responsible for, for a period of two years (current year plus one).

3.2.3 The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.

3.2.4 Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.

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

3.3 Reporting Relationship with Line Management

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

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

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

The outcome of which will be report to the Audit Committee, whose attention will be drawn to high risk matters outstanding after follow up.

3.4 Reporting Relationship with the Partners

- 3.4.1 The Head of Audit Partnership has a line reporting relationship directly to the Dover District Council's Director of Finance, Housing and Communities the Council's s.151 Officer. Together under the Collaboration Agreement for the provision of one shared Internal Audit Service, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The Client Officer Group meets collectively with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

- 3.4.2 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, EKAP will present an Annual Audit Report that can be used to inform the councils governance statement to:

- Provide an individual summary of the work completed for each Partner,
- Compare actual audit activity with that planned,
- Provide an opinion on the adequacy and effectiveness of the councils framework of governance, risk management and control,
- Summarise the performance of the East Kent Audit Partnership against its performance criteria, and provide a statement of conformance with professional standards, with details of the quality assurance and improvement programme,
- Include the cost of the service for the partner.

3.5 Relationship with Audit Committees

- 3.5.1 The East Kent Audit Partnership has a direct relationship with those charged with the responsibility for governance. Consequently, the Head of Audit Partnership issues a report summarising the results of its reviews to each meeting. The Annual Report is the foundation for the opinion given through the Governance Assurance Statement, which is published annually. The Committee will also approve the Audit Partnership annual work plan for their Council.
- 3.5.2 The Head of Audit Partnership may escalate any high-risk matters of concern (that in his opinion have not been adequately actioned by management) directly to committee, should this ever become necessary.

3.6 Relationship with External Audit

- 3.6.1 The Head of Audit Partnership will liaise with the External Auditors to:
- Foster a co-operative and professional working relationship,
 - Reduce the incidence of duplication of effort,
 - Ensure appropriate sharing of information, and
 - Co-ordinate the overall audit effort.
- 3.6.2 In particular the Head of Audit Partnership will:
- Discuss the annual Audit Plan with the External Auditors to facilitate External Audit planning,
 - Hold meetings to discuss performance and exchange thoughts and ideas,
 - Make all Internal Audit working papers and reports available to the External Auditors,
 - Receive copies of all relevant External Auditors reports to Management, and
 - Gain knowledge of the External Auditors' programme and methodology.

3.7 Other Regulators, Inspectors and Audit Bodies

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

3.8 Relationship with the Public

The councils' Anti-Fraud, Corruption, Bribery and Whistleblowing policies encourage staff, members, contractors and members of the public to raise their concerns in several ways, one of which includes making contact with Internal Audit. This Charter therefore considers the responsibility EKAP has with investigating complaints made from the general public about their concerns. It is concluded that each case must be assessed on its own merits and agreement with the s.151 Officer reached before EKAP resources are directed towards an investigation.

4 Competence and Standards of Auditors

4.1 Competence

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

4.2 Standards

Regardless of membership, all auditors will be expected to work in accordance with the Public Sector Internal Audit Standard and practice statements issued by the Institute of Internal Auditors and CiPFA. The East Kent Audit Partnership strives to meet best practice as highlighted in paragraph 2.1. The auditors must also observe the Codes of Ethics of the Institute of Internal Auditors and CiPFA, which call for high standards of honesty, objectivity, diligence and loyalty in the performance of their duties and responsibilities. In addition to professional codes of ethics, the EKAP staff are bound to the DDC Code of Conduct through their employment contract.

5 Audit Process

5.1 The EKAP seeks to deliver effective outcomes by;

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

5.2 Planning

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

- A Strategic Plan, which ensures that coverage of each of the partner councils as a whole, over a time frame of three to five years, is maintained and reviewed annually, to take into account the new priorities and risks of each authority. This focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Head of Audit Partnership works together with the two Deputy Heads of Audit to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic

plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process

- An Annual Plan for each partner, specifying the planned audits to be performed each year, their priority and the resource requirements for each planned audit review.

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

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

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

5.3 Documentation

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. Audit working papers contain the principal evidence to support the report and they provide the basis for review of work. The Auditors employ an audit methodology that requires the production of working papers, which document the following:

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

5.4 Consultation

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

- issue a copy of the proposed Audit Brief by e-mail, and

- where appropriate arrange a pre-audit meeting between the Service Manager and the Auditor to discuss the purpose, scope and expected timing of the work.

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

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

- ensure that information gathered is accurate and properly interpreted,
- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,
- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

5.5 Reporting

5.5.1 A written discussion document (draft report) is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Deputy Head of Audit reviews the draft together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to confirm factual accuracy and challenge any of the findings of the review.

5.5.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to mitigate or control them.

5.5.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing "Agreed Actions" is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.

5.5.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.

5.5.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:

- The objectives of the audit,
- The scope of the audit, and where appropriate anything omitted from the review,
- An overall conclusion and opinion on the subject area,
- Proposed actions for improvement,
- Service Manager's comments (where appropriate), and

- A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.
- 5.5.6 Each Final Report carries one of four possible levels of Assurance. This is assessed as a snapshot in time, the purpose of which is for all stakeholders to be able to place reliance on that system of internal controls to operate as intended; completely, consistently, efficiently and effectively. Assurance given by Internal Audit at the year end is based on an overall assessment of the assurance opinions it has given during that year, and can only apply to the areas tested. There are insufficient resources to audit every aspect of every area every year.
- 5.5.7 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.
- 5.6 Follow Up**
- 5.6.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used. Each recommendation is classified as to whether it is high, medium or low risk. The due date for implementation and the responsible person are also recorded.
- 5.6.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:
- a. The control improvement has successfully been implemented
 - b. Progress is being made towards implementing the control improvement
 - c. No action has yet occurred due to insufficient time or resources
 - d. That after agreeing the action, the risk is now being tolerated
 - e. That the control improvement is no longer relevant due to a system change
 - f. Other reason (please specify).
- 5.6.3 Further testing will be carried out where necessary (e.g. high risk recommendations) to independently confirm that effective action has in fact taken place.
- 5.6.4 A written summary of the results of the follow up action is issued to the relevant Service Manager and Director, and where appropriate a revised assurance level is issued. The results of follow-up reviews and the revised assurance opinions issued are also reported to members.
- 5.6.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management and ultimately the Audit Committee as described in paragraph 3.3.2 of this Charter.

6 Resources

6.1 Staff Resources

- 6.1.1 Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the CIIA.
- 6.1.2 A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.
- 6.1.3 The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the "expert" to gain additional skills.

6.2 Budget

The EKAP budget is hosted by DDC and apportioned between the partners based on the agreed number of audit days. The cost per audit day is a metric reported annually in the Annual Report. The budget for 2016/17 is £431,120 which includes direct and indirect costs to the partnership. The individual salaries paid to the staff, including the Head of the Audit Partnership are standard grades as assessed by the DDC Job Evaluation system.

7. Quality assurance

The quality assurance arrangements for the EKAP include all files being subject to review by either the Deputy Head of Audit for the site and/or by the Head of Audit Partnership (especially if the review has 'no' or 'limited' assurance). The review process is ongoing and includes adequate supervision of the audit staff and of the audit work performed. This review ensures that the work undertaken complies with the standards defined in the Public Sector Internal Audit Standards and with the requirements of this Charter. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of Internal Audit is undertaken separately by each of the partner authorities. To comply fully with the PSIAS the EKAP will present the options for an external quality assessment to be undertaken before October 2017.

8. Additional Services

8.1 Special Investigations and Fraud Related Work

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

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

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

8.2 Ad Hoc / Consultancy Work

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, to back-fill whilst partnership staff carry out the assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. Conflicts of interest may be avoided if carrying out consultancy work due to the flexibility of the arrangements within the EKAP, as we are able to rotate auditors accordingly. Approval of requests from Management for additional projects are subject to certain criteria, to include whether the EKAP has the relevant skills and capacity to undertake the assignment.

8.3 Value for Money (VFM) Reviews

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

9. Amendment to Audit Charter

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

February 2016

References:

Former Audit Strategy
Audit Manual
Public Sector Internal Audit Standards (PSIAS)
CIPFA Application Note to PSIAS

Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Main Financial Systems:							
Capital	3	2015-16	Reasonable				5
Treasury Management	4	2013-14	Substantial	5	3		
Car Parking & Enforcement		2014-15	Substantial			10	
Bank Reconciliation		2015-16	Substantial				5
Creditors and CIS		2014-15	Reasonable			10	
External Funding Protocol		New Area	To be Assessed				
Main Accounting System	3	2013-14	Substantial	10	3		
Income		2014-15	Substantial			10	
Budgetary Control	3 and 11	2013-14	Substantial	10	3		
VAT		2015-16	Limited				10
Insurance and Inventories of Portable Assets		2013-14	Reasonable	10	1		
Residual Housing Systems:							
Homelessness	12	2013-14	Substantial/Limited	10	1		
Housing Allocations	12	2015-16	Substantial				10
Right to Buy		2013-14	Reasonable			8	
HRA Business Plan		2010-11	Substantial	10	4		
Governance Systems:							
Data Protection, FOI and Information Management	15	2013-14	Reasonable	10	1		
Members' Code of Conduct, Register of Interests, Gifts and Hospitality, and Standards Arrangement		2015-16	2015-16 WIP				10
Officers' Code of Conduct and Gifts and Hospitality		2012-13	Substantial	10	2		
Local Code of Corporate Governance		2013-14	Substantial			7	
Anti-Fraud & Corruption (including: The Bribery Act, Money Laundering and Whistle Blowing Arrangements)		2014-15	Substantial	10	2		
Performance Management	21	2013-14	Substantial	10	2		
Complaints Monitoring		2014-15	Substantial			10	
Partnerships and Shared Services Monitoring	9 and 10	2015-16	2015-16 WIP				12
Scheme of Officer Delegations		2007-08	Reasonable				
Corporate/Governance and Audit Committee		2015-16	N/A	32	1 to 4	32	32
Project Management		New Area	To be Assessed				
Risk Management	Informs all Corporate Risks	2015-16	Reasonable				10
Other:							
Liaison with the External Auditors	N/A	2015-16	N/A	2	1 to 4	2	2
Previous Year Work in Progress b/fwd	N/A	2015-16	N/A	5	1	5	5
Follow-up	N/A	2015-16	N/A	10	1 to 4	15	15
Contract Audits:							
CSO Compliance		2014-15	Reasonable			12	
Service Contract Monitoring		2013-14	Substantial			10	
Receipt and Opening of Tenders		2010-11	Reasonable	8	4		
Procurement		2015-16	2015-16 WIP				10
Service Level Audits:							
Inward Investment		New Area	To be Assessed			7	

Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Cemeteries		2013-14	Reasonable /Limited	10	4		
Safeguarding Children and Vulnerable Groups/DBS Checks		2014-15	Reasonable			10	
s11 Safeguarding Return to KCC		Annual	N/A	1	3	1	1
Private Sector Housing – HMO Licensing and Selective Licensing		2014-15	Reasonable			10	
Community Safety		2015-16	Substantial				10
Coastal Management		2013-14	Substantial			10	
CCTV		2013-14	Substantial			10	
Dog Warden Service, Street Scene and Litter Enforcement (incl. graffiti and flytipping)		2015-16	2015-16 WIP				10
Electoral Registration & Election Management	14	2015-16	2015-16 WIP				10
Environmental Health – Food Safety		2013-14	Substantial	10	3		
Environmental Health – Public Health Burials		2015-16	Reasonable				6
Environmental Health - Port Health		2012-13	Substantial	10	3		
Environmental Health – Pest Control		2014-15	Substantial			10	
Environmental Health – Health and Safety at Work	8	2015-16	Substantial				10
Environmental Health - Environmental Protection Service Requests		2015-16	Substantial				
Environmental Health - Contaminated Land, Air and Water Quality		2013-14	Reasonable	10	2		
Business Continuity and Emergency Planning	7	2013-14	Substantial	10	1		
Playgrounds		Pre 2004-05	To be Assessed				
Equality and Diversity	13	2015-16	2015-16 WIP				10
Events Management		Pre 2004-05	To be Assessed			10	
Health and Wellbeing		New Area	To be Assessed				10
Grounds Maintenance		2015-16	2015-16 WIP				10
Disabled Facilities Grants		2013-14	Substantial	10	1		
Land Charges		2011-12	Reasonable	10	4		
Licensing		2012-13	Reasonable	10	2		
Museum and VIC		2015-16	Substantial				12
Asset Management		2008-09	Reasonable			10	
Commercial Properties and Concessions (incl allotments, Industrial estates, Media Centre, Innovation centre etc)		2015-16	2015-16 WIP				10
Members' Allowances and Expenses		2012-13	Substantial	10	3		
Planning Applications, Income and s106 Agreements	20	2013-14	Substantial/ Limited	12	4		
Building Control		2015-16	Reasonable				10
Petty Cash, Imprest Floats and Travel Warrants		Pre 2004-05	To be Assessed			6	
Phones, Mobiles and Utilities - Expenditure and Controls		Pre 2004-05	To be Assessed			10	
Printing, photocopying and postage		2015-16	Substantial				8
Your Leisure - Sports and Leisure		2015-16	Reasonable				12

Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Sports Development		2014-15	Reasonable			10	
Whitecliffs Countryside and Up on the Downs		2014-15	Reasonable			10	
Waste Management and Street Cleansing		2014-15	Reasonable			10	
Garden Waste and Recycling Income		New Area	To be Assessed				
Climate Change		New Area	To be Assessed				
Human Resources:							
Recruitment	17	2015-16	2015-16 WIP				5
Absence Management, Annual Leave and Flexi Leave	16	2014-15	Limited			5	
Payroll, SMP & SSP		2015-16	2015-16 WIP	5	2	5	5
Post Entry Training		Pre 2004-05	To be Assessed				
Leavers/Disciplinary		Pre 2004-05	To be Assessed	5	2		
Employee Health, Safety and Welfare	8	2015-16	Reasonable				5
Employee Allowances and Expenses		2014-15	2014-15 WIP			5	
Employee Benefits-in-Kind		2013-14	Reasonable	5	3		
Total Planned Days:				270		270	270

Shared Service Audit Plans:

EK SERVICES:							
Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Housing Benefits - Payments		2014-15	Substantial			15	
Housing Benefits - Overpayments		2013-14	Substantial	15	To be Agreed		
Fraud Investigations		New Area	To Be Assessed	15	To be Agreed		
Housing Benefits – Admin & Assessment		2014-15	Substantial			15	
Housing Benefit - Appeals		2015-16	Substantial				15
Housing Benefit - DHP		2015-16	Substantial				15
Housing Benefit - Subsidy		New Area	To Be Assessed	15	To be Agreed		
Housing Benefits – 1/2 Yearly Testing		2015-16	N/A	20	To be Agreed	20	20
Council Tax		2014-15	Substantial	30	To be Agreed		30
Council Tax Reduction Scheme		New Area	To Be Assessed			6	
Business Rates		2013-14	Reasonable			30	
Customer Services/Gateway		2014-15	Reasonable	15	To be Agreed		
Debtors and Rechargeable Works		2015-16	Substantial				30
Corporate/Audit Plan/Ctte Reports		2015-16	Not Applicable	8	1 to 4	8	8
Follow-up Reviews		2015-16	N/A	6	1 to 4	6	6
ICT – Change Controls		2013-14	Limited	12	To be Agreed		
ICT – File Controls/DPA/Back ups		2014-15	Reasonable			12	

Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
ICT – Network Security		2012-13	Substantial	12	To be Agreed		
ICT – Procurement and Disposal		2013-14	Reasonable			12	
ICT – Internet and e-mail		2014-15	Reasonable			12	
ICT – Management and Finance		2015-16	Reasonable				12
ICT – Physical and Environment		2014-15	Reasonable			12	
ICT – Software Licensing		2012-13	Limited	12	To be Agreed		
ICT - PCI-DSS		2015-16	2015-16 WIP				12
ICT - Disaster Recovery		2015-16	2015-16 WIP				12
ICT – PC & laptop Controls and Application Controls		2013-14	Reasonable			12	
Total Planned Days:				160		160	160

EAST KENT HOUSING LIMITED:							
Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Governance		2011-12	Reasonable	15	To be Agreed		
Finance Systems and ICT Controls		2011-12	Substantial	15	To be Agreed		
Audit Cttee/EA Liaison/Follow-up		2015-16	N/A	6	1 to 4	6	6
Rent Accounting, Collection and Debt Management		2013-14	Reasonable	15	To be Agreed	15	
Repairs and Maintenance		2015-16	Limited				30
Leasehold Services		2013-14	Reasonable / Limited			29	
Health and Safety (Fire, Gas etc)		2014-15	Various			30	
Sheltered and Supported Housing (including Supporting People)		2015-16	Limited				34
Void Property Management		2015-16	Limited				10
Tenancy and Estate Management		2012-13	Reasonable	29	To be Agreed		
Total Planned Days:				80		80	80

If the above plan is accepted as presented, the following audits areas will not have been covered within a three year cycle as required by the agreed Audit Charter :

Plan Area	Year last audited	Previous Assurance level	Year next audit proposed	Planned days
Dover District Council:				
External Funding Protocol	New Area	To be Assessed	No Provision	10
Right to Buy	2013-14	Reasonable	2017-18	8
Local Code of Corporate Governance	2013-14	Substantial	2017-18	7
Scheme of Officer Delegations	2007-08	Reasonable	No Provision	8
Project Management	New Area	To be Assessed	No Provision	10
Service Contract Monitoring	2013-14	Substantial	2017-18	10
Inward Investment	New Area	To be Assessed	2017-18	7
Coastal Management	2013-14	Substantial	2017-18	10
CCTV	2013-14	Substantial	2017-18	10

Plan Area	Corporate Risk Register Ref.	Year last audited	Previous Assurance level	2016-17 Planned Days	Quarter Prioritised for 2016-17	2017-18 planned days	2018-19 Planned Days
Environmental Health - Environmental Protection Service Requests	2015-16	Substantial	No Provision	10			
Playgrounds	Pre-2004-05	To be Assessed	No Provision	8			
Events Management	Pre-2004-05	To be Assessed	No Provision	10			
Health & Wellbeing	New Area	To be Assessed	2018-19	10			
Asset Management	2008-09	Reasonable	2017-18	10			
Petty Cash, Imprest Floats and Travel Warrants	Pre-2004-05	To be Assessed	2017-18	6			
Phones, Mobiles and Utilities	Pre-2004-05	To be Assessed	2017-18	10			
Garden Waste and Recycling Income	New Area	To be Assessed	No Provision	8			
Climate Change	New Area	To be Assessed	No Provision	8			
Post Entry Training	Pre-2004-05	To be Assessed	No Provision	3			
East Kent Housing:							
Leasehold Services	2013-14	Limited	2017-18	29			

Subject:	TREASURY MANAGEMENT QUARTER THREE REPORT 2015/16
Meeting and Date:	Governance – 24th March 2016
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 31 December 2015 (Q3) and an update of activity to date.
Recommendation:	That the report is received

1. Summary

As at 31 December 2015, the Council's in-house investment portfolio totalled £32.5m (see Appendix 2). The revised Treasury Management Strategy Statement (TMSS) was updated and approved at the end of September 2015 and, accordingly, we have opened further accounts during Q3 and placed funds with HSBC (£7.5m), Barclays (£5m) and Santander (£5m) in order to deal with the higher level of in-house funds available for investment as a result of funds being returned from Investec on their withdrawal from custodianship arrangements on 30th June 2015. This means that higher interest rates can be achieved and this has prevented any further reduction in projected interest receivable since the end of the last quarter.

Additional cashflow funds remain high (£23m at 31st December 2015) and we will continue to review our cashflow needs, and consider whether further funds can be invested for six to twelve months. However, we need to bear in mind that significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2016/17 and 2017/18 as part of the leisure centre and town hall projects. Similarly, more than £3m remains in the Council's bank account awaiting payment requests from Discovery Park, where the Council is acting as the accountable body (intermediary) for "Building Foundations for Growth" grant already received from DCLG. For these reasons, the Council has exceeded the £10m deposit limit with its operating bank (NatWest) in breach of its revised TMSS, but in a low risk, instant access Special Interest Bearing Account (SIBA).

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 remains £29k below budget, as reported at the end of September, but means there has been no further projected erosion of returns during the quarter to December. The shortfall for the year also relates to the on-going pressure on interest rates and the reduction in deposit durations permissible for part-nationalised banks following revisions to credit ratings.

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

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

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 longer term investment, following the withdrawal of Investec, formerly the Council's fund managers, from the local authority segregated funds market.

To avoid excessive cashflow funds being held in low-interest bearing overnight and instant access deposit accounts with the Council's operating bank and others, it is proposed to update deposit limits in the 2016/17 TMSS to allow increased funds to be held with highly credit-rated banks and institutions, subject to suitable credit criteria, to further improve returns in 2016/17.

3. Annual investment strategy

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

The investment portfolio as at the end of December is attached at Appendix 2. Since the end of the quarter, three deposits have matured and been reinvested with the same banks. Two deposits with Nationwide totalling £4m have been reinvested for six months as before, but at a higher rate of return (0.71% vs. 0.66%). One deposit of £2m with Lloyds has been reinvested for six months at 0.75%, which is a lower rate of return than before, when it was invested for twelve months at 1.00%. The shorter duration relates to a change in credit rating following a reduced Government stake in the Lloyds banking group.

Cash flow funds decreased from £39.4m at 30th September 2015 to £23.1m at 31st December 2015 (see Appendix 2), which is mainly due to transferring £17.5m funds to longer term deposits as part of the revised investment portfolio figure of £32.5m, as detailed in (1) above. Cashflow funds have increased slightly from £23.1m at the end of December 2015 to £24.2m at the end of February 2016 (see Appendix 4), but these should reduce once the final PWLB loan instalment is paid for the 2015/16 year (in March) and also bearing in mind the reduced council tax receipts in March (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. These factors should cause a reduction in cash balances by the end of the financial year.

4. Economic background

The report attached contains information up to the end of December 2015; since then we have received the following update from Capita, which they have split between "January 2016" and "February 2016" comments. Please note that their references to quarters are based on *calendar* years:

January - Introduction

Economic data from the UK was mixed in January. The Manufacturing PMI fell to a three-month low of 51.9 in December, falling short of economists' expectations, as factories reported the slowest rate of new orders growth in five months. The Services PMI also fell, but at 55.5 the sector is expanding at a healthy rate and continues to underpin the UK's recovery. However, the Construction PMI picked up from its seven-month low of 55.3 in November to 57.8 in December as commercial building picked up in tandem with the country's resurgent economy. The sum of the disappointing data was that the UK economy ended the year on a slightly weaker note.

GDP

Although the preliminary estimate of UK Q4 GDP revealed a slight improvement in quarterly growth of 0.5%, the year on year rate of 1.9% was the weakest in nearly three years.

Employment

The labour market tightened further to leave unemployment at a near ten year low of 5.1%, in the three months to November. Moreover, the number of people in employment reached a record 31.39 million. Despite the stronger employment figures, wage growth, including bonuses, slowed to 2.0% in November, from 2.4% in the previous month, the lowest rate since February of last year. Conversely, the headline Consumer Prices Index (CPI) rose to an 11 month high of 0.2% year-on-year, surpassing economists' expectations, as increased Christmas transport costs, particularly air fares, outweighed the impact of falling oil prices.

Interest rates

The Bank of England (BoE) left interest rates unchanged at 0.5% as expected, with the Monetary Policy Committee (MPC) members voting 8-1, as Ian McCafferty again voted for a rate increase. The rationale behind the MPC's decision was that the falling oil prices will have a direct impact on British inflation in the coming months and economic growth may well be slower than previously forecast. The MPC did add that declines in oil prices may contribute to economic growth in Britain and other economies.

US Data

Across the Atlantic, the first reading of US Q4 GDP added to the gloom, showing a sharp slowdown as the economy grew by an annualised 0.7%, compared to 2.0% in Q3. The considerable fall was attributed to weak global demand pressuring exports, not helped by a strengthening dollar, and a surplus of inventories. On a more positive note, US job growth was particularly strong, with the economy adding 292,000 to non-farm payrolls in December. Nonetheless, the rate of unemployment was unchanged at its seven and a half year low of 5%. The Federal Reserve kept interest rates at 0.25-0.5% as expected at its January meeting but pointed towards global equities performance as reflection of growing fears of a sudden global economic slowdown. Despite the robust US Labour market data, economists believe that low inflation and financial market turmoil could persuade the Fed not to deliver a previously expected second hike in March.

Eurozone Data

Eurozone unemployment fell slightly from 10.6% to 10.5% in November; the lowest level in more than four years. The German economy recorded the lowest rate of unemployment at 4.5%, whilst Spain and Greece continued to experience the highest levels at 21.4% and 24.6% respectively. The European Central Bank stuck to the status quo as anticipated, keeping its deposit rate at -0.3% and the main refinancing rate at 0.05%.

February - Introduction

February saw the continuation of the turbulent market conditions that had been in place through the prior month, with the additional domestic concern of an EU referendum for participants to contend with. Data releases from here and further afield added to market concerns about the global economic outlook, leading most investors and commentators to pare back any rising interest rate expectations.

Despite the tepid nature of data releases towards the end of Q4, the services PMI activity survey provided evidence that the economic recovery began 2016 on a somewhat stronger note. The headline figure saw a slight nudge, from 55.5 to 55.6 in January. However, with uncertainty remaining ahead of the EU referendum, coupled with firms' concerns over a global economic slowdown, caution regarding the outlook remained fully entrenched. Despite these positive readings, the manufacturing activity survey revealed the index slumped to a near three-year low of 50.8 in February, from the preceding month's 52.9. Furthermore, the construction PMI also stood at its weakest in ten months, with the figure coming in at 54.2, from 55.0 in January.

Employment

On a less gloomy note for the UK, employment reached its highest peak in the three months to December 2015, as recorded by the ONS. Of the UK population, 74.1% were logged to have been employed, providing some positive sentiment in the economy's near-term outlook. In spite of this, an expected fall in unemployment failed to take place in December, with the unemployment rate sticking at 5.1%, the same level as in the three months between September and November.

Interest Rates

This month's "Super Thursday" announcements revealed any prospects for an early rate rise remains remote, following a 9-0 vote in favour of leaving rates at its record low of 0.5%, evidently illustrating that low inflation has clearly tied the MPC's hands. This outcome from the MPC resulted in Sterling falling by over a percent against the Euro.

GDP

With the weakening global economy taking its toll on the UK, the Bank of England (BoE) has steered to cutting its growth forecasts, with GDP predicted to come in at 2.2% this year, from a previously anticipated 2.5%. A further key point outlined in the Inflation Report suggested inflation will remain below 1% for all of 2016, and is only expected to reach its 2% target by the first quarter of 2018.

Petrol prices looked to be the biggest contributor to the annual inflation rate inching up to a 12-month high in January, as suggested by data from the ONS. Nevertheless, CPI rising to 0.3% in January from December's 0.2%, still indicated that price pressures were benign. Beliefs still linger regarding CPI inflation gradually heading back towards its target if and when the impact of tumbling commodity prices begins to take a back seat.

US Data

US non-farm payroll numbers came in worse than anticipated, leading equity markets, including those in London, to fall. With international news agency, Reuters, predicting an increase of 190,000 people in jobs for January, markets were disappointed when the actual figure recorded a gain of only 151,000. Despite this substandard number, the unemployment rate continued to fall, to 4.9% from 5% in December, nearing an eight-year low. Alongside this, average hourly earnings rose 2.5% year-on-year in January, exceeding forecasts of a 2.2% increase. Further US data encompassed the slight appreciation of the Dollar after GDP for Q4 was unexpectedly revised upwards. The second estimate saw growth hit 1% annualised in the final quarter of the year, up from the 0.7% initial estimate.

UK Data

In contrast, the second estimate of UK GDP for Q4 revealed no change, with the growth levels remaining at 0.5% q/q and 1.9% y/y, in line with expectations. Following several months of market uncertainty and turmoil, investors took some comfort from these confirmed positive readings. Consumer spending revealed a 0.7% increase in the last quarter of 2015, aiding towards offsetting the decline in exports and the biggest drop in business investment in nearly two years. Conversely, the ONS reported that Britain's total trade deficit widened to £10.35bn in Q4, from £8.58bn in the previous quarter. This provides further evidence that international trade is likely to have dragged on economic growth, and consequently suggesting that the UK appears to be losing ground over recent decades with respect to the trade deficit.

The UK recorded the largest January public finances surplus since 2008, of £11.2bn. Nonetheless, expectations of a £12.65bn surplus were missed, indicating little to no scope to loosen the country's fiscal stance in the Budget next month. Alongside this, the odds still remain loaded against Chancellor George Osborne meeting the fiscal targets of £73.5bn for the 2015/16 budget deficit.

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. A further update of the TMSS for 2016/17 seeks to increase limits with highly credit-rated banks, including with our operating bank, NatWest, but also to enable further transfers of 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 31 December 2015

Appendix 3 – Borrowing portfolio as at 31 December 2015

Appendix 4 – Investment portfolio as at 29 February 2016

Background Papers

Medium Term Financial Plan 2015/16 – 2017/18

Contact Officer: Stuart Groom, extension 2072

Treasury Management Update

Quarter Ended 31st December 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.

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. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before falling back to +0.4% (+2.1% y/y) in quarter 3. Growth is expected to improve to about +0.6% in quarter 4 but 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 November autumn statement.

Despite these headwinds, the Bank of England November Inflation Report included a forecast for growth over the three years of 2015, 2016 and 2017 to be around 2.7%, 2.5% and 2.6% respectively, although statistics since then would indicate that an actual outturn for 2015 is more likely to be around 2.2%. Nevertheless, this is still moderately strong growth which is being 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 November 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 re-join 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 Bank of England to make a start on raising Bank Rate as soon as had been expected in early 2015, especially given the subsequent 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 during 2015, which could potentially spill over to impact the real economies rather than just financial markets.

The American economy 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 before easing back to +2.0% in quarter 3. While there had been confident expectations during the summer that the Fed. could start

increasing rates at its meeting on 17 September, downbeat news during the summer 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. The nonfarm payrolls figures for September and revised August, issued on 2 October, were also disappointingly weak. However, since then concerns on both the domestic and international scene have abated and so the Fed made its long anticipated start in raising rates at its December meeting.

In the Eurozone, the ECB unleashed a massive €1.1 trillion programme of quantitative easing in January 2015 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 was intended to run initially to September 2016. At the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. The ECB also cut its deposit facility rate by 10bps from -0.2% to -0.3%. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and a start to some improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but has then eased back to +0.4% (+1.6% y/y) in quarter 2 and to +0.3% (+1.6%) in quarter 3. Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it 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:

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank rate	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB rate	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB rate	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB rate	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

Capita Asset Services undertook a review of its interest rate forecasts on 9 November 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 and into early 2016, it is currently very difficult for the MPC to make a start on increasing Bank Rate. In addition, 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 excluding bonuses hitting 2.5% in quarter 3, this has subsided to 1.9% and is unlikely to provide ammunition for the MPC to take action to raise Bank Rate soon as labour productivity growth would mean that net labour unit costs are still only rising by less than 1% y/y. The significant appreciation of Sterling against the Euro in 2015 has also acted to dampen UK growth while volatility in financial markets since the Inflation Report has resulted in volatility in equity and bond prices and bond yields (and therefore PWLB rates). But CPI inflation will start sharply increasing around mid-year 2016, once initial falls in fuel and commodity prices fall out of the 12 month calculation of

inflation; this will cause the MPC to take a much keener interest in the forecasts for inflation over their 2-3 year time horizon from about mid-year.

The Governor of the Bank of England, Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. 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, and an update was approved at Council on 30/09/2015. The update was needed due to higher levels of in-house funds following return of monies from Investec on their withdrawal from custodianship arrangements on 30/06/2015. The TMSS 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.

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31st December 2015, with the exception of the £10m limit on deposits in the Special Interest Bearing Account (SIBA) with the Council's operating bank, NatWest. This is due to unusually high levels of cash balances including, for example, more than £3m remaining in the Council's bank account awaiting payment requests from Discovery Park, where the Council is acting as the accountable body (intermediary) for "Building Foundations for Growth" grant received from DCLG. The SIBA balance reached £16.5m during the quarter and, while reducing to £8.2m by 31st December, had spiked again since the end of the quarter, reaching £17m on 17th February 2016. Levels have normalised since, and are likely to remain within the £10m limit up to 31st March 2016, as council tax receipts dip (usually paid in ten instalments from April to January) and a further PWLB loan repayment is made in March, alongside other normal payments. SIBA balances are "instant access" and therefore lower risk.

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. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£32.5m** core cash balances for investment purposes (i.e. funds available for more than one year), as shown on Appendix 2.

Investment performance for the financial year to date as at 31st December 2015

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.36	0.50	£206k

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 to date is estimated to be £304k, which is **£29k** below budget.

4. New Borrowing

As outlined below, the general trend in PWLB rates has been an increase in interest rates during the first quarter followed by a fall during the second quarter: in the third quarter rates have been volatile with no overall direction. The 50 year PWLB target (certainty) rate for new long term borrowing, fell slightly during the quarter ending 31st December from 3.60% to 3.50% after the November 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 31st December 2015

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.90%	2.55%	3.28%	3.10%
Date	23/10/2015	15/10/2015	05/10/2015	02/10/2015	03/12/2015
High	1.33%	2.23%	2.88%	3.57%	3.43%
Date	09/11/2015	09/11/2015	09/11/2015	09/11/2015	09/11/2015
Average	1.23%	2.05%	2.69%	3.41%	3.27%

Borrowing in advance of need

This Council has not borrowed in advance of need during the quarter ended 31st December 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 and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown after point (7) below.

7. Other

Treasury Management Strategy Statement

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 have opened 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. As a result, the estimated annual shortfall reported at the end of September 2015 of £29k has not worsened, based on our revised estimate from figures to 31st December.

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. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

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.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution, merely a reassessment of their methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the “support” phase of the financial crisis.

Prudential and Treasury Indicators as at 31st December 2015

Treasury Indicators	2015/16 Budget £'000	Quarter 3 (Oct-Dec) 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 3 (Oct-Dec) Actual £'000
Capital expenditure	17,512	8,265
Capital Financing Requirement (CFR)	98,233	91,079

In-house as at 31/12/15
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	1.250	1,910,000		
					1,910,000		
In-house Investments - Portfolio							Duration
Lloyds	Term deposit	A+/F1/5	17/06/2016	0.750	3,000,000	UK - Gov 'AA+'	182 days
BOS	Bond	A+/F1/5	09/05/2016	0.750	1,000,000	UK - Gov 'AA+'	182 days
Lloyds	Term deposit	A+/F1/5	29/01/2016	1.000	2,000,000	UK - Gov 'AA+'	364 days
Nationwide	Fixed term deposit	A/F1/5	24/02/2016	0.660	3,000,000	UK - Gov 'AA+'	184 days
Close Brothers	Fixed term deposit	A/F1/5	20/06/2016	0.600	5,000,000	UK - Gov 'AA+'	184 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2016	0.660	1,000,000	UK - Gov 'AA+'	181 days
Barclays	Fixed term deposit	A/F1/5	04/04/2016	0.690	5,000,000	UK - Gov 'AA+'	184 days
HSBC	Notice Account	AA-/F1+/1		0.570	7,500,000	UK - Gov 'AA+'	90 days notice required to withdraw funds
Santander	Notice Account	A/F1/2		0.900	5,000,000	UK - Gov 'AA+'	95 days notice required to withdraw funds

32,500,000
Total Portfolio
34,410,000
Cashflow
Call Accounts/MMF (as at 31/12/15)
Rate

Global Treasury Fund (Goldman Sachs Money Market Fund)	4,550,106	0.44%
Standard Life Investments Money Market Fund (MMF)	5,000,000	0.50%
Natwest SIBA	8,171,273	0.25%
Natwest SIBA SEEDA	55,961	0.10%
Natwest SIBA HCA	47,664	0.10%
Natwest SIBA ASDA	11,081	0.10%
Santander	54,415	0.20%
BoS	5,138,560	0.50%
Barclays	81,605	0.40%

Total Cash flow
23,110,664
Total Portfolio and Cashflow
57,520,664

0.4% until 10th November

£1 million Nationwide deposit re-invested on 04/01/2016 @ 0.71% for six months

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	44.64	13	PWLB	Equal installment of principal
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	96	2.50	8.40	2	PWLB	Equal installment 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	2,021,864.25	2,679,943	PWLB	Annuity
Fixed	01/05/2012	01/11/2027	MAY-NOV		104,515	0.00	8,709.60	0	Lawn Tennis Association	Interest free
					91,881,554		2,030,627	3,084,958		

In-house as at 29/02/16
APPENDIX 4

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
Held in Custody at Kings and Shaxon								
United Kingdom	Gilt		24/05/2013	22/07/2018	1.250	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.250	960,000		
						1,910,000		
In-house Investments - Portfolio:								
Barclays	Fixed term deposit	A/F1/5	02/10/2015	04/04/2016	0.690	5,000,000	UK - Gov 'AA+'	Duration 184 days
Bank of Scotland (BOS)	Bond	A+/F1/5	09/11/2015	09/05/2016	0.750	1,000,000	UK - Gov 'AA+'	182 days
Lloyds	Fixed Term deposit	A+/F1/5	17/12/2015	17/06/2016	0.750	3,000,000	UK - Gov 'AA+'	183 days
Close Brothers	Fixed term deposit	A/F1/5	18/12/2015	20/06/2016	0.600	5,000,000	UK - Gov 'AA+'	184 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2016	04/07/2016	0.710	1,000,000	UK - Gov 'AA+'	181 days
Lloyds	Fixed term deposit	A+/F1/5	29/01/2016	29/07/2016	0.750	2,000,000	UK - Gov 'AA+'	181 days
Nationwide	Fixed term deposit	A/F1/5	24/02/2016	24/08/2016	0.710	3,000,000	UK - Gov 'AA+'	182 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1			0.570	7,500,000	UK - Gov 'AA+'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2			0.900	5,000,000	UK - Gov 'AA+'	95 days notice required to withdraw funds
						32,500,000		
						34,410,000		
						Total Portfolio		
Cashflow:								
							Call Accounts/MMF (as at 29/02/16)	Rate
							Global Treasury Fund (Goldman Sachs Money Market Fund)	4,550,106 0.44%
							Standard Life Investments Money Market Fund)	5,000,000 0.50%
							Natwest SIBA	9,291,160 0.25%
							Natwest SIBA SEEDA	55,961 0.10%
							Natwest SIBA HCA (EP)	47,664 0.10%
							Natwest SIBA ASDA	11,081 0.10%
							Santander	54,463 0.15%
							Bank of Scotland (BOS)	5,138,560 0.50%
							Barclays	81,639 0.10%
							Total Cash flow	24,230,633
							Total Portfolio and Cashflow	58,640,633



The Audit Plan for Dover District Council

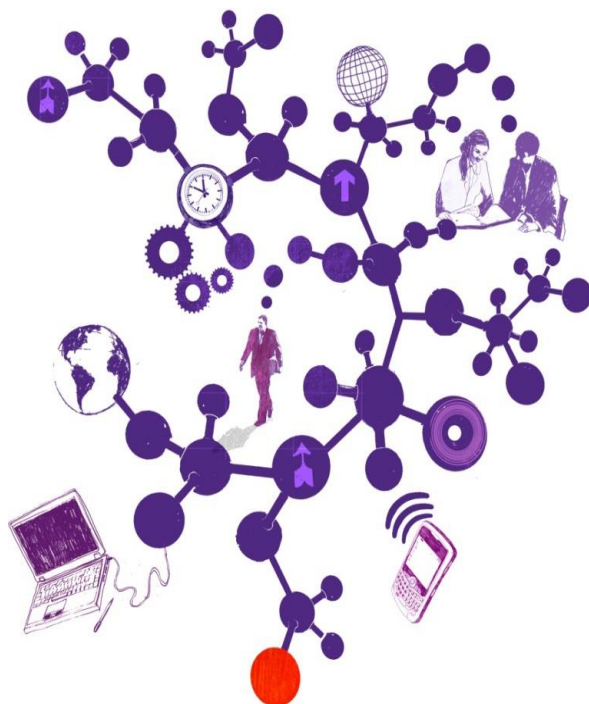
Year ending 31 March 2016

24 March 2016

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

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24 March 2016

Dear Members of the Governance Committee

Audit Plan for Dover District Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Dover District Council, the Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth Olive
Engagement Lead

Chartered Accountants

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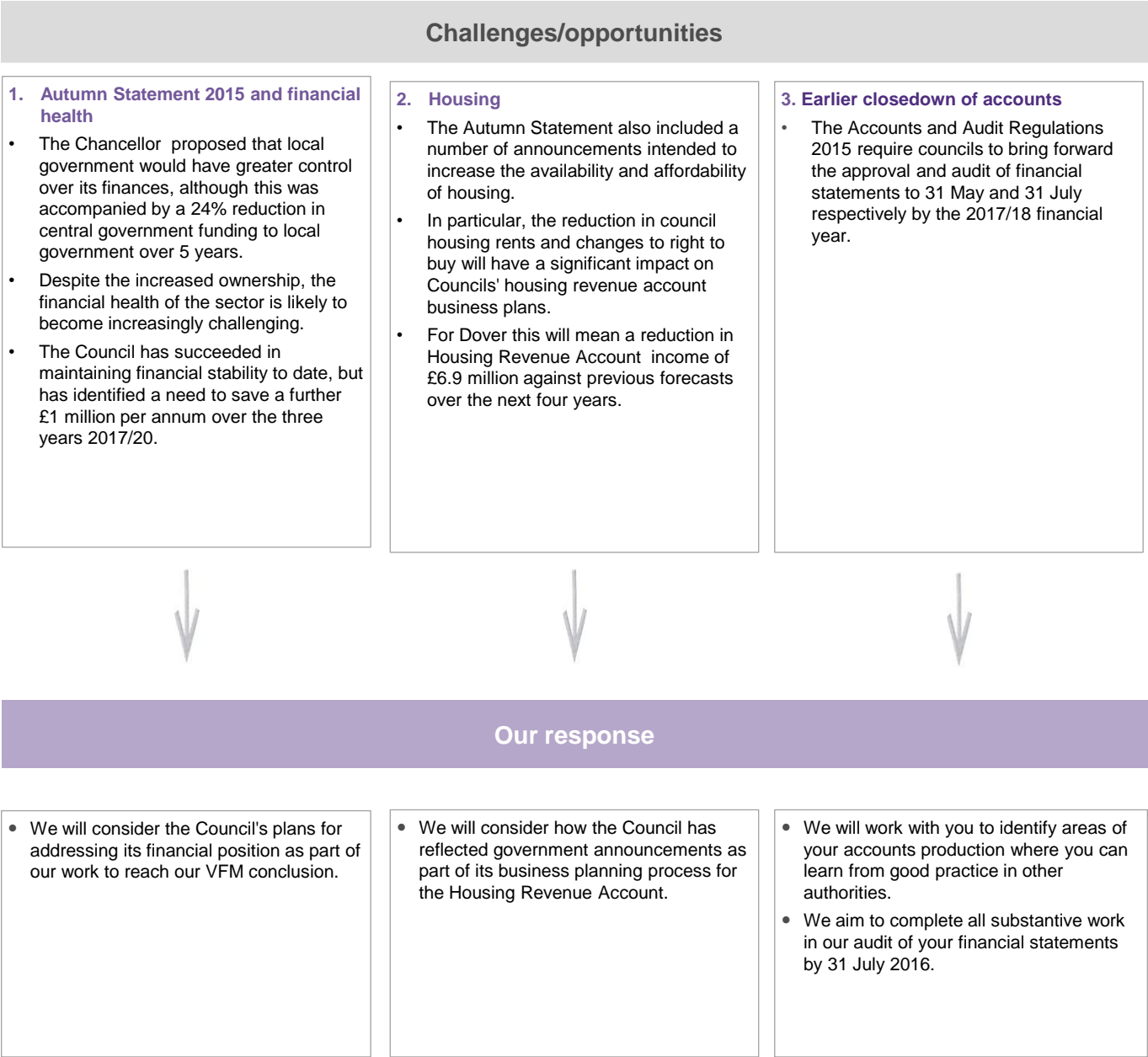
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A. Action plan	
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Understanding your business

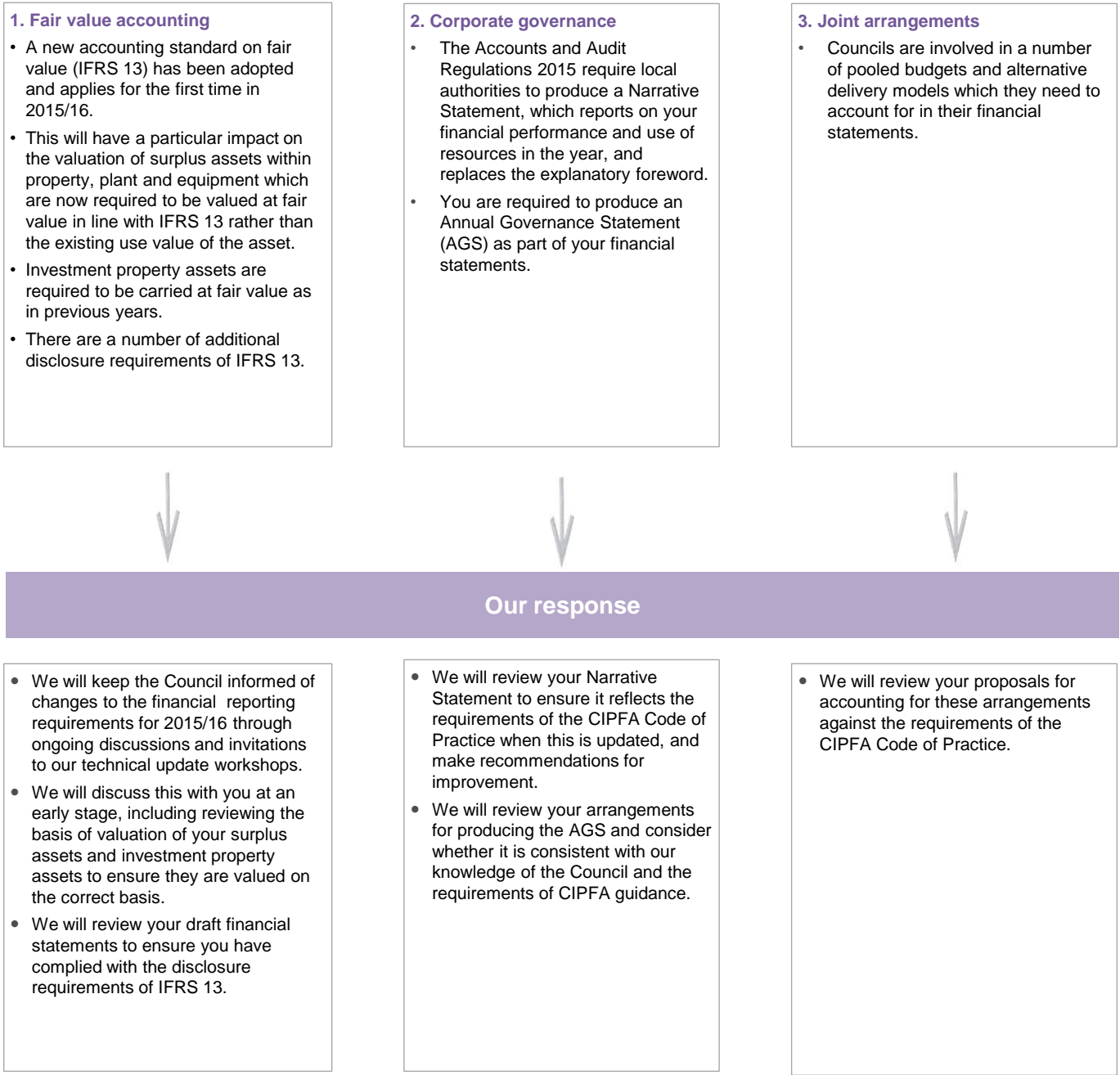
In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



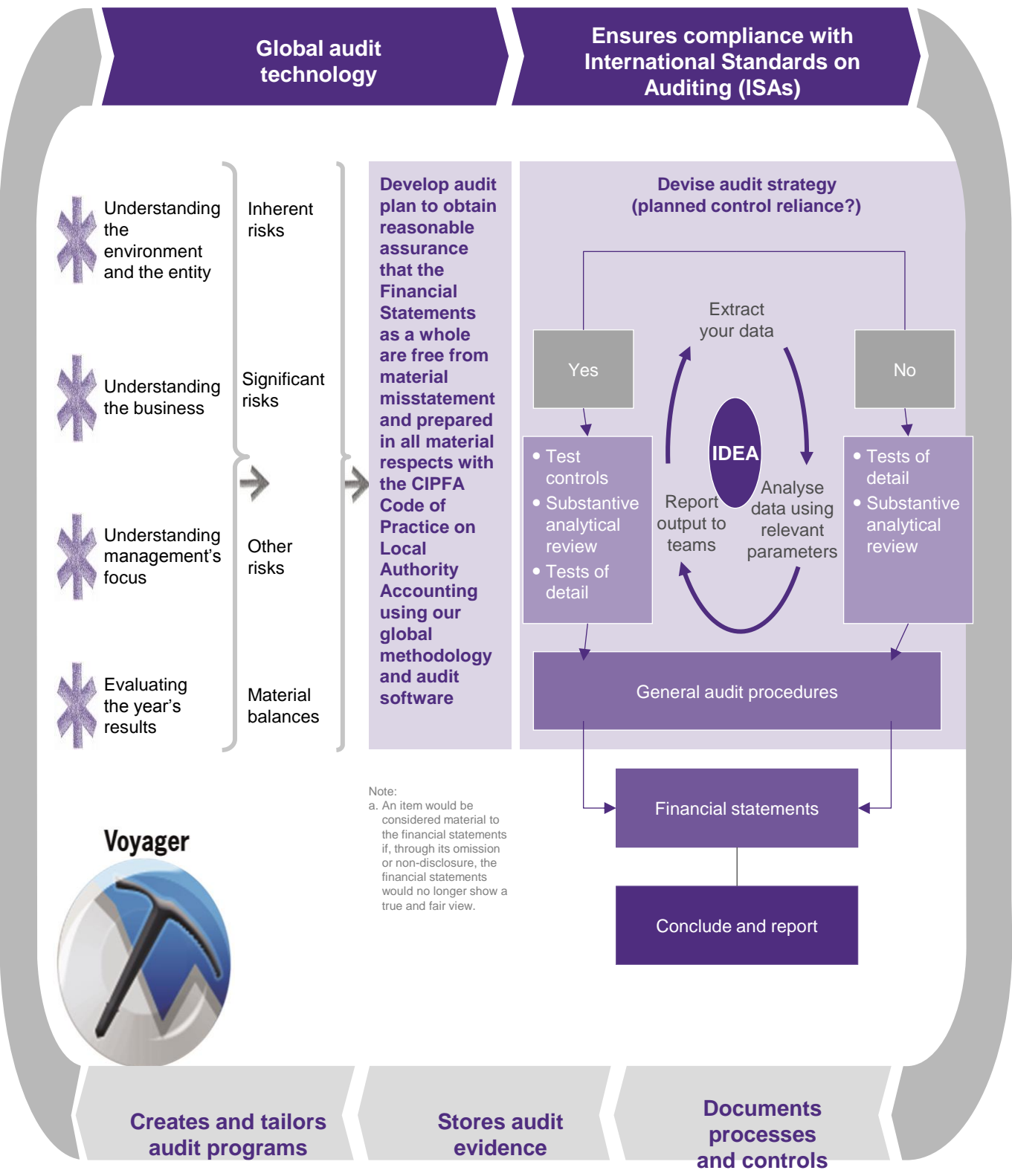
Developments and other requirements relevant to your audit

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

Developments and other requirements



Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,653k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £83k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance / transaction / disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£100k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£50k

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Dover Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Dover Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Assessment of internal controls in place relating to the posting of journal entries• Testing of journal entries from Months 1 -9 (April – December 2015) <p>Further work planned:</p> <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries from M10-12• Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • A walkthrough of the council's processes and controls over this area to gain an understanding of these. • Verification of the existence and ownership of material assets and a sample of those remaining. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the internal revaluation of any Council owned assets and challenge the assumptions made in arriving at the valuation. • Testing of the significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Other risks identified

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

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of the council's processes and controls over this area to gain an understanding of these. <p>Further work planned:</p> <ul style="list-style-type: none"> Detailed substantive testing will be performed over the operating expenditure incurred by the Council, during the year, including payments made post-period end Trend analysis of the month-on-month spend on Operating Expenses will be performed to identify any months where amounts have been potentially omitted, and explanations will be obtained for these. Testing will also be performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough of the council's processes and controls over this area to gain an understanding of these. <p>Further work planned:</p> <ul style="list-style-type: none"> Trend analysis on the council's Monthly Payroll Figures to identify any months where there are outliers present which may indicate issues with the completeness of the figures included within the GL from the Payroll System. Testing of a sample of employees across the year to agree pay back to the relevant supporting records, such as their contracts/pay rise letters, to ensure the full costs have been included within the Accounts for the year.

Other risks identified (continued)

Other risks	Description	Audit approach
Property, plant and equipment	Property, plant and equipment activity not valid	<p>Work completed to date:</p> <ul style="list-style-type: none"> • A walkthrough of the council's processes and controls over this area to gain an understanding of these. • Verification of the existence and ownership of material assets and a sample of those remaining. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid..
Pension valuation (IAS 19)	Valuation of the pension fund assets and liabilities have been incorrectly valued	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of the council's processes and controls over this area to gain an understanding of these. • Document our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities. <p>Further work planned:</p> <ul style="list-style-type: none"> • Test the completeness and appropriateness of the data sent to the pension fund by the council. • Review the assumptions used by the actuary in arriving at their valuation for reasonableness. • Test the input of the valuation data from the actuary to the financial statements, and review disclosures of the IAS 19.

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Value for Money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Relevance to sub-criteria	Work proposed to address
Medium term financial plan The local government settlement has placed further pressure on the Council's finances and the Council's medium term financial plan includes the need for significant savings over the next four years.	This relates to the Council's arrangements for: <ul style="list-style-type: none">planning finances effectively to support the sustainable delivery of strategic priorities.	We will review the Council's plans to deliver savings over the course of the medium term financial plan.
HRA Business Plan The forthcoming rent reduction required by central government will reduce HRA income by £6.9 million against previous forecasts over the next 4 years. This will have a significant impact on the HRA Business Plan.	This relates to the Council's arrangements for: <ul style="list-style-type: none">planning finances effectively to support the sustainable delivery of strategic priorities.	We will update our understanding of the Council's HRA business planning.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none">• Communication and enforcement of integrity and ethical values• Commitment to competence• Participation by those charged with governance• Management's philosophy and operating style• Organisational structure• Assignment of authority and responsibility• Human resource policies and practices	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

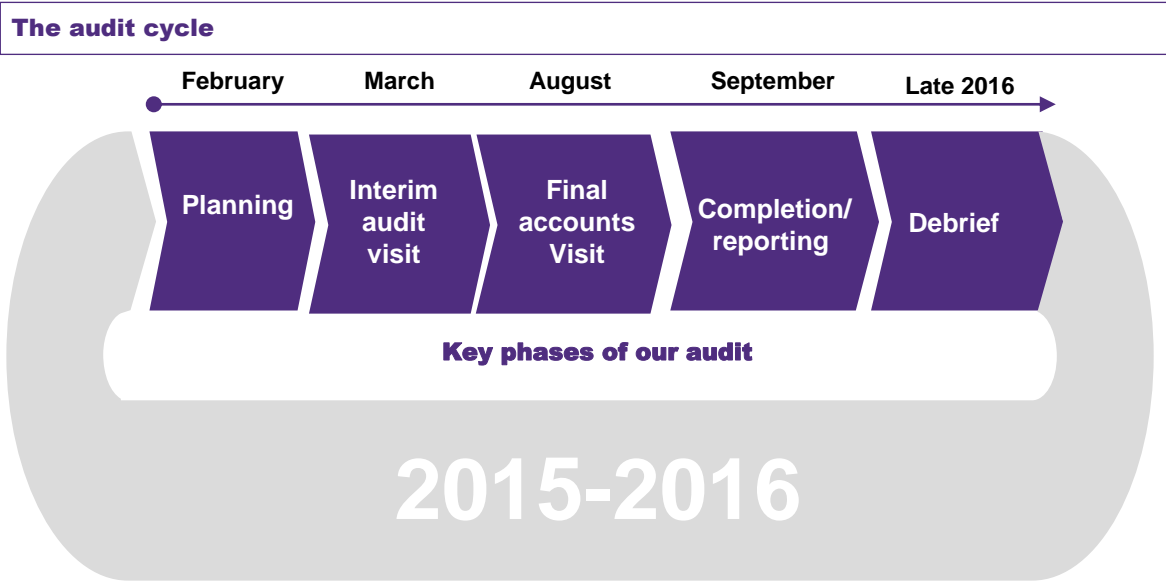
Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	A high level review of the general IT control environment is in progress, as part of the overall review of the internal controls system, to ensure that IT (information technology) controls have been implemented in accordance with our documented understanding.	Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

Results of interim audit work (continued)

	Work performed	Conclusion
Journal entry controls	Due to difficulties in extracting a complete journals population for our interim testing, we have determined, in discussion with appropriate finance staff, to delay the testing of journals until a full report of journals can be generated at year end.	Our year end testing will entail extracting 'unusual' entries from throughout the year for further review.
Early substantive testing	We have tested operating expenses transactions for the first nine months.	<p>No issues have been identified that we wish to bring to your attention.</p> <p>Further testing will be undertaken in respect of these transactions for the remainder of the year.</p>

Key dates



Date	Activity
February	Planning
March	Interim site visit
24 th March 2016	Presentation of audit plan to Governance Committee
July	Year end fieldwork
September	Audit findings clearance meeting with Director of Finance
29 th September 2016	Report audit findings to those charged with governance (Governance Committee)
29 th September 2016	Sign financial statements opinion

Fees and independence

Fees

	£
Council audit	71,580
Grant certification	22,040
Total audit fees (excluding VAT)	93,620

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	[From 2014/15 audit] 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.	High	The 2015/16 closedown is being trialled with a target completion date of 31st May to assess the impact of earlier closing and enable changes to processes to be implemented in sufficient time for the statutory change.	May 2016 Head of Finance
2	[From 2014/15 audit] The Council should undertake a review of the underlying home improvement loan records to ensure they provide comprehensive supporting information.	Medium	Reconciliation work has been undertaken between the Housing team & Accountancy to check that the records agree. The final quarter reconciliation will be undertaken as part of the year end processes.	May 2016 Head of Finance
3	Ensure that a complete journals population is available for interim testing, to facilitate an earlier audit opinion in future years.	Medium	Work is being undertaken with EKS ICT to obtain the relevant reports for future years.	May 2016 Head of Finance



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Mike Davis
Dover District Council
White Cliffs Business Park
Dover
Kent CT16 3PJ

22 February 2016

Dear Mike

Certification work for Dover District Council for year ended 31 March 2015

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments Ltd (PSAA) have taken on the transitional responsibilities for Housing Benefit Subsidy certification requirements (HB COUNT) issued by the Audit Commission in February 2015.

We have certified one claim for the financial year 2014/15 relating to expenditure of £39.9 million. Further details of the claim certified are set out in Appendix A.

We wish to highlight the following issues arising from our certification work which we identified as a result of our detailed testing on the Council's Housing Benefit Subsidy Return. As part of our initial testing we identified six errors as detailed below. Under the HB COUNT approach, where we identify errors of this type we are required to undertake additional testing before we determine if we are able to adjust or issue a qualification letter.

- Non-HRA Rent Rebates: initial testing identified one case where the Local Housing Allowance Cap had been incorrectly applied. Additional testing of 40 cases identified no further errors.
- Non-HRA Rent Rebates: initial testing identified one case where classification between cells was incorrect. Additional testing of the full population resulted in a proposed amendment.
- HRA Rent Rebates: initial testing identified one case where benefit was overpaid as a result of miscalculating the claimant's pension income. Additional testing of 40 cases identified no further errors.
- HRA Rent Rebates: initial testing identified one case where the overpayment has been incorrectly classified between overpayment types. Additional testing of 40 cases identified one further error.
- Rent Allowances: initial testing identified one case where self-employed earnings had been miscalculated. Additional testing of 40 cases identified 8 further errors.
- Rent Allowances: initial testing identified one case where the Authority had overpaid benefit as a result of miscalculating the claimant's pension income. Additional testing of 40 cases identified no further errors.

These were reported in the qualification letter which was sent to the Department for Work and Pensions and PSAA on 27 November 2015, in advance of the statutory deadline.

In addition, we are required to complete testing of an additional 40 cases for errors identified in prior years that could remain in the population. We completed additional testing for the following areas:

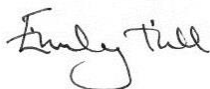
- Non-HRA Rent Rebates: testing of 40 cases to confirm correct rent liability identified no errors
- HRA Rent Rebates: testing of 40 cases to confirm correct pension applied in the calculation identified no errors.

Aside from the above issues, we are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £22,040. This is set out in more detail in Appendix B.

Our initial testing identified a greater number of errors than had been identified in additional years which required significant extended testing under the HB COUNT requirements. The HB COUNT process assumes that additional testing will normally be completed by the client with a review of this work by the audit team. Due to the capacity and availability of the East Kent Services housing benefits team during the certification period, particularly due to the timing of the implementation of the new housing benefits system we agreed to complete the additional testing ourselves to ensure that the deadline was achieved. Due to the additional work that we had to perform in 2014/15 in order to be able to certify the Council's Housing Benefit Subsidy Return, we propose an additional fee of £29,000, which reflects an additional seven workbooks required to be completed by auditors compared to 2012/13. This fee proposal is currently being considered by PSAA, and we will only proceed with billing this amount following approval from PSAA.

Yours sincerely



Emily Hill
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing Benefits Subsidy Return (BEN01)	£39,925,988	No	N/A	Yes	As mentioned above, identified errors led to eight 40+ workbooks completed by auditors. These were required for us to certify the return with an appropriate qualification letter.

Appendix B: Fees for 2014/15 certification work

Claim or return	2012/13 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing Benefits Subsidy Return (BEN01)	25,040	22,040	51,040*	26,000	The increased fee reflects the increase from one 40+ workbook in 2012/13 to eight 40+ workbooks required in 2014/15 and the completion of this additional work by the audit team rather than by East Kent Services. The level of this additional fee, proposed at £29,000, is subject to PSAA approval.
Total	25,040	22,040	51,040*	26,000	

*subject to PSAA approval