

# Public Document Pack



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29 March 2017

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 6 April 2017 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@dover.gov.uk](mailto:jemma.duffield@dover.gov.uk).

Yours sincerely

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

Chief Executive

## Governance Committee Membership:

P G Heath (Chairman)  
D Hannent (Vice-Chairman)  
P I Carter  
B J Glayzer  
S J Jones  
A S Pollitt

## 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 - 9)

To confirm the attached Minutes of the meeting of the Committee held on 1 December 2016.

5 **PLAY AREA AUDIT UPDATE**

To receive a verbal update from officers.

The Committee at its meeting held on 1 December 2016 requested that the Committee receive an update on the processes in place for assuring the adequacy and effectiveness for the service provisions for playgrounds following the meeting between management and internal audit.

6 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 10 - 32)

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

7 **INTERNAL AUDIT CHARTER AND DRAFT PLAN 2017-18** (Pages 33 - 54)

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

8 **TREASURY MANAGEMENT QUARTER THREE REPORT 2016/17** (Pages 55 - 70)

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

9 **AUDIT PLAN 2016/17** (Pages 71 - 90)

To consider the attached report of Grant Thornton.

10 **THE STANDARDS COMMITTEE** (Pages 91 - 96)

To consider the attached report of the Director of Governance.

**Access to Meetings and Information**

- Members of the public are welcome to attend meetings of the Council, its Committees and Sub-Committees. You may remain present throughout them except during the consideration of exempt or confidential information.
- All meetings are held at the Council Offices, Whitfield unless otherwise indicated on the front page of the agenda. There is disabled access via the Council Chamber entrance and a disabled toilet is available in the foyer. In addition, there is a PA system and hearing loop within the Council Chamber.
- Agenda papers are published five clear working days before the meeting. Alternatively, a limited supply of agendas will be available at the meeting, free of charge, and all agendas, reports and minutes can be viewed and downloaded from our website [www.dover.gov.uk](http://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](mailto: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, 1 December 2016 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: M R Eddy (as substitute for Councillor A S Pollitt)  
B J Glayzer (as substitute for Councillor A F Richardson)  
D Hannent  
P I Carter  
S J Jones

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

26 APOLOGIES

Apologies for absence were received from Councillors A R Richardson and A S Pollitt.

27 APPOINTMENT OF SUBSTITUTE MEMBERS

It was noted that, in accordance with Council Procedure Rule 4, Councillors B J Glayzer and M R Eddy had been appointed as substitutes for A R Richardson and A S Pollitt respectively.

28 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

29 MINUTES

The Minutes of the meeting of the Committee held on 29 September 2016 were approved as a correct record and signed by the Chairman.

30 ORDER OF BUSINESS

The Chairman proposed that the order of business be changed to allow for agenda items 9, 10 and 11 be considered before item 8.

RESOLVED: That, in accordance with Council Procedure Rule 14, the order of business be amended in order that agenda items 9, 10 and 11 be considered before item 8.

31 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Head of Audit Partnership (East Kent Audit Partnership) introduced the Quarterly Internal Update report. There had been seven internal audits undertaken during the period of which one was classified as providing Substantial Assurance, one classified as providing Substantial/Reasonable Assurance, four as Reasonable Assurance and one as Limited.

Members were concerned with the Limited Assurance awarded for the service provisions for playgrounds and that the processes in place for assuring the adequacy and effectiveness for the service were not effective. An action plan to address the findings had been completed; Members requested that following a meeting between management and internal audit to discuss the action plan, an update be provided to the Committee.

There were nine follow up reviews completed during the period, of which East Kent Housing (EKH) – Repairs, Maintenance and Void management remained as receiving Limited Assurance. Following a recent EKH Finance and Audit Sub-Committee meeting Members were updated with the following in response to the revised Limited Assurance level:

- There were new processes in place since May 2016 for Post Inspections;
- A restructure of Property Services was now in phase 2;
- There was a new planned maintenance (both capital and cyclical) investment plan;
- The new service improvement plan was due to go to the Task and Finish group; and
- There was a delay on the single system and as a result this had a knock on effect on to some of the recommendations.

A high priority recommendation after follow-up was still outstanding for the service EK Services – Physical and Environmental Controls for the installation of a gaseous fire suppressant system for DDC. As this was a fire risk Councillor D Hannent wanted this to be high on the list of priorities as the proposed completion date of March 2016 had long since passed and still no agreement had been reached. He asked that the issue be followed up and reported back to the Committee.

- RESOLVED: (a) That the Quarterly Internal Audit Update report be noted.
- (b) That the Committee receive an update on the processes in place for assuring the adequacy and effectiveness for the service provisions for playgrounds following the meeting between management and internal audit.

- (c) That the Committee receive an update regarding the outstanding high priority recommendation for EK Services – Physical and Environmental Controls.

32 QUARTER TWO TREASURY MANAGEMENT REPORT

The Director of Finance, Housing and Community presented the Treasury Management Quarter Two Report 2016/17.

The Council had remained within its Treasury Management and Prudential Code guidelines during the period. Whilst interest rates remained low the Council's investment return for the quarter had outperformed the benchmark by 0.32% although this return was expected to reduce by the year-end as interest rates on new and rolled over deposits were due to fall. The Council's performance for the full year was estimated to be £335k, just slightly ahead of budget.

RESOLVED: That the Treasury Management Quarter Two Report 2016/17 be received.

33 ANNUAL AUDIT LETTER 2015/16

Members were directed to the Annual Audit Letter and asked to note the report received from Grant Thornton.

RESOLVED: That the Annual Audit Letter be noted.

34 EXCLUSION OF THE PRESS AND PUBLIC

It was moved by Councillor D Hannent, duly seconded and

RESOLVED: That, under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting on the grounds that the items to be considered involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 Schedule 12A of the Act.

35 ANNUAL DEBT COLLECTION REPORT - EAST KENT SERVICES

The Director of Finance, Housing and Community presented the Annual Debt Collection Report for East Kent Services to the Committee. The purpose of the report was to advise Members of the value of income collected and write-offs in 2015/16.

RESOLVED: That the report be received and note:

- (a) The value of income collected and write-offs for each type of income, as set out in the report;

- (b) The generally high collection rates;
- (c) The aged debt profile;
- (d) The increasing arrears for housing benefit overpayments and leasehold service charges;
- (e) The additional points set out in paragraph 8 of the report.

36 ANNUAL DEBT COLLECTION REPORT - EAST KENT HOUSING

The Director of Finance, Housing and Community presented the Annual Debt Collection Report for East Kent Housing to the Committee. The purpose of the report was to advise Members of the value of income collected and write offs undertaken by East Kent Housing on Dover District Council's behalf in 2015/16.

RESOLVED: That the report be noted and note:

- (a) The value of income collected and write-offs for each type of income, as set out in the report;
- (b) The generally high collection rates;
- (c) The aged debt profile;
- (d) The requirement to raise invoices for rechargeable works more promptly.

37 RESOLUTION TO RE-ADMIT THE PRESS AND PUBLIC

It was proposed by Councillor D Hannent, duly seconded and

RESOLVED: That the press and public be re-admitted to the meeting for the remaining business on the agenda.

38 REVIEW OF THE CONSTITUTION 2016

The Director of Governance presented the Review of the Constitution 2016 undertaken in accordance with Article 15 of the Council's Constitution which provided for an annual and ad-hoc review. The review incorporated a number of changes to the functions of the Planning Committee (Part 3, Responsibility for Functions, Sections 1 and 2) and to the Scheme of Officer Delegations (Part 3, Section 6, Sub Section C).

The proposed changes to Sections 1 and 2 were to make the functions more transparent and easier to understand to prevent challenge. The Committee received



an update to the report to amend the Council Function, Delegation to Head of Regeneration and Development item 21 (h) to read:

“(h) Powers to enter into planning obligations, to modify and discharge planning obligation and related powers.”

The proposed changes within Section 6 reflected organisational changes and as with Sections 1 and 2, made the functions more transparent and easier to understand.

Members asked that officers be thanked for their work in producing the report and

RESOLVED: (a) That it be recommended to Council that the proposed changes in the Review of the Constitution 2016, specifically relating to Part 3, Responsibility for Functions, Section 1 (Responsibility for Local Choice Functions), Section 2 (Responsibility for Council Functions) and Section 6, Sub Section C (Scheme of Officer Delegations) that relate to Council functions be approved and incorporated into the Council’s Constitution, (issue no. 20) subject to the following amendment:

Council Function, Delegation to Head of Regeneration and Development item 21 (h) to read:

“(h) Powers to enter into planning obligations, to modify and discharge planning obligation and related powers.”

(b) That it be recommended to Council that the proposed changes in the Review of the Constitution 2016, specifically relating to Part 3, Section 6, Sub Section C (Scheme of Officer Delegations) that relate to executive functions be approved.

The meeting ended at 6.42 pm.

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**Subject:** QUARTERLY INTERNAL AUDIT UPDATE REPORT

**Meeting and Date:** Governance Committee – 6<sup>th</sup> April 2017

**Report of:** Christine Parker – Head of Audit Partnership

**Decision Type:** Non-key

**Classification:** Unrestricted

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**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<sup>st</sup> December 2016

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**Recommendation:** That Members note the update report.

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**1. Summary**

This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance 31<sup>st</sup> December 2016.

**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 nine Internal Audit reports that have been completed during the period, of which six reviews were classified as providing Substantial assurance, one as Reasonable Assurance, and one with a split assurance level of Reasonable/Limited. Additionally, there was one assignment for which an assurance level is not applicable as it comprised of quarterly housing 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 31<sup>st</sup> December 2016, 203.82 chargeable days were delivered against the planned target of 284.10, which equates to 72% plan completion.

#### 3 Resource Implications

- 3.1 There are no additional financial implications arising directly from this report. The costs of the audit work will be met from the Financial Services 2016-17 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 2016-17 - Previously presented to and approved at the 24<sup>th</sup> March 2016 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.

Contact Officer: Christine Parker, Head of Audit Partnership



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

**1. INTRODUCTION AND BACKGROUND**

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Governance Committee meeting, together with details of the performance of the EKAP to the 31<sup>st</sup> December 2016.

**2. SUMMARY OF REPORTS:**

Service / Topic		Assurance level	No. of Recs.	
2.1	Insurance & Inventories of Portable Assets	Substantial	C H M L	0 0 0 1
2.2	Main Accounting System, Budgetary Control and Treasury Management	Substantial	C H M L	0 0 2 2
2.3	East Kent Housing - Tenancy & Estate Management	Substantial	C H M L	0 0 2 1
2.4	EKHR - Recruitment	Substantial	C H M L	0 0 0 3
2.5	EK Services ICT Management & Finance	Substantial	C H M L	0 0 0 2
2.6	Receipt and Opening of Tenders	Substantial	C H M L	0 0 0 1
2.7	Garden Waste & Recycling Income	Reasonable	C H M L	0 2 3 2
2.8	Performance Management	Reasonable/Limited	C H M L	0 3 2 4

2.9	EK Services – Housing Benefit Quarterly Testing (Quarter 2 & 3 of 2016-17)	Not Applicable
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## **2.1 Insurance & Inventories of Portable Assets – Substantial Assurance.**

### 2.1.1 Audit Scope

To ensure that sufficient insurance coverage is in place for the Council to limit the risks that face the authority in carrying out its many and varied functions.

To ensure that all Council assets are completely and accurately accounted for and safely held.

### 2.1.2 Summary of Findings

The Council awarded a three year insurance contract to Zurich in 2015 at £315.5k per year, as this was most economical option. This resulted in a lower premium cost and a lower excess of £1k per claim compared to the previous £10k. Some individual residual policies, where beneficial, remain with other providers as brokered by AON. AON continue to support the Council along with contract provider Zurich.

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

- The Council is adequately insured;
- Insurance arrangements are well managed;
- Claims records are well maintained;
- Valuations and insurance cover for property tested is up to date;
- The Corporate Services Officer attends training and update events and is supported by broker AON and contract provider Zurich;
- Schedules of assets are updated annually to take account of additions, disposals and valuations;
- Guidance for the recording and writing-off of inventories is clearly defined in the Council's Constitution, and;
- Adequate asset detail is recorded

Scope for improvement was however identified in the following areas:

- The Council's public indemnity certificate needs to be updated on the Council's website.

## **2.2 Main Accounting System, Budgetary Control & Treasury Management – Substantial Assurance.**

### 2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that

- the main accounting system provides complete and accurate data for the production of the annual accounts and financial returns.
- budgetary control is exercised across the Council on a corporate wide basis, and.

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- the various Treasury Management matters within the remit of the accountancy office are performed effectively & efficiently, in furtherance of the Council's Policies.

### 2.2.2 Summary of Findings

#### Budgetary Control

The Council's net budget requirement for 2016/17 was £14m. The area under review supports delivery of Corporate Priority 4, Smarter Council, focusing on delivering value for money services through review and challenge of service budgets and proposals.

#### Treasury Management

Treasury management is concerned with planning cash flow, investing surplus funds in accordance with the Treasury Management Strategy and arranging borrowing if needed. The Council has an investment portfolio of just over £50m (as at December 2016). Treasury Management activities are managed within the Finance area and details are reported to Council, the Cabinet and to the Governance Committee.

#### Main Accounting System

E-financials is the main accountancy system and is setup to compliment business processes and internal controls to ensure income and expenditure is coded as accurately as possible which in turn then helps with the production of final accounts at year end.

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

- Roles and responsibilities are well defined and communicated;
- Budgetary controls are working effectively;
- Treasury Management activities are well documented and controlled; and
- The main accountancy system is configured well and helps compliment good business processes in place.

Some small scope for improvement was however identified in the following areas:

- Treasury Management online banking access should be reviewed; and
- There were a couple of measures highlighted to management that may help reduce the risk of missing the new statutory deadline for the production of the 2016/17 final accounts.

## **2.3 East Kent Housing Tenancy & Estate Management – Substantial Assurance.**

### 2.3.1 Audit Scope

In order to review the organisation's arrangements across the four partner Council sites for tenancy and estate management including looking after housing estates such as managing grass cutting, gardening contracts, cleaning and maintenance of communal areas etc.

### 2.3.1 Summary of Findings

East Kent Housing (EKH) was set up in April 2011 to deliver the council housing services on behalf of Canterbury, Dover, Shepway and Thanet councils. EKH manages over 18.000 properties owned by the four partner councils.

EKH's tenancy and estate management responsibilities include:

- Making sure that tenants adhere to their tenancy agreements.
- Involving and communicating with tenants including producing newsletters, leaflets and supporting community groups and activities.
- Working with the police, the council and other agencies to reduce anti-social behaviour.
- Re-letting empty properties, approving mutual exchanges and changes to tenancies.

EKH's 2016-17 delivery plan includes the following objectives:

- Single system; completing the implementation and planning for changes in service delivery post implementation.
- Improving estate conditions – responding to the aspirations of residents and staff to have better maintained estates.

The 2016-17 delivery plan supports the EKS corporate priorities which, for tenancy and estate management, include to:

- Maintain clean, well looked-after estates.
- Create consistent and targeted customer contact.
- Develop a better insight in to the characteristics and needs of residents.
- Provide consistent and effective customer contact.

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

- All tenants are required to sign a tenancy agreement which clearly sets out the terms of the tenancy, the rights and responsibilities of each party and the consequence of any breaches of the rules.
- There is clear advice to tenants about the consequences of not complying with the tenancy agreement and the sanctions which may be imposed.
- There are clear guidelines addressing mutual exchanges.
- Policies are in place for dealing with terminations and successions.
- Anti-social behaviour (ASB) is clearly defined, identified promptly, recorded accurately, and addressed in accordance with current procedures and policies.
- There are suitable forums in place within each authority and across EKH for sharing information on clients and best practices for dealing with ASB.
- Complaints are addressed quickly and the complainants kept informed of the progress and outcome of their complaint. There is the facility to learn from and to address issues raised within complaints. The Single system will improve standardisation of processes in this area.
- Front line housing staff are suitably trained in effective customer relations.
- There is a clear communication policy in place to promote effective dialogue with tenants on general day to day issues. General communication with tenants and leaseholders involves as many media formats as possible.

- The preferred method of communication with each tenant and leaseholder is to be identified and used wherever possible.
- Tenants and leaseholders are involved in the service decision making process via formal and informal consultation processes.
- There is a regular programme of meetings with tenants and leaseholders to review the individual estates overall condition on cleanliness, graffiti, grounds maintenance and estate improvements (e.g. regular walkabouts etc.).
- There are formal contracts in place for estate cleaning with standards to be achieved clearly defined. There is also a regular review programme to ensure that contracts are kept and standards maintained, and that effective communications with the contractor are maintained.
- There are formal contracts in place for grounds maintenance including the standards to be achieved being clearly defined at three of the four sites.
- There is a regular review programme to ensure that contracts are kept and standards maintained and effective communications with the contractor is maintained.
- EKH are about to commence the roll out of a new single system across all four partner Council sites – a 2016-17 delivery plan objective.
- The Tenant Scrutiny Panel recently undertook a review of EKH's compliance with the Tenant Involvement and Empowerment Standard. The panel found that 13 out of the 17 specific expectations have been met and an action plan has been put in place to deal with the outstanding issues.

Scope for improvement was however identified in the following areas:

- The named Primary Designated Officer (on the sharing protocol) needs to be updated to reflect the change in Chief Executive at EKH.
- As part of the introduction of the new single system the same sign off processes for introductory tenancies should be reviewed in terms of standardisation.

## **2.4 EKHR Recruitment - Substantial Assurance:**

### **2.4.1 Audit Scope**

To provide assurance that the partner Councils' internal controls and procedures are robust, in order to ensure that the Council selects the best candidates for the available positions and that those applicants are of good character, experienced and are professionally qualified where required.

### **2.4.2 Summary of Findings**

EK Human Resources (EKHR) is responsible for giving advice on, and the administration of, recruitment across all partners – Canterbury City Council (CCC), Dover District Council (DDC), East Kent Housing (EKH), EK Services (EKS) and Thanet District Council (TDC). Total employees at each of the above partners at 9 September 2016 is:

CCC	748
DDC	308
EKH	195
EKS	306
TDC	440
<b>Total</b>	<b><u>1,997</u></b>



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

- The EKHR SLA is the process of being revised and a 'Recruitment Toolkit' makes clear where responsibilities lie;
- Performance indicators are provided to partners on a quarterly basis;
- The recruitment process is, in the main, consistently documented;
- Pre-employment checks were, in the sample tested, consistently carried out; and
- The recruitment process, in the areas tested, complies with the Equality Act 2010 and Data Protection Act 1998.

Scope for improvement was however identified in the following areas:

- As a shared service, consider the option to arrange a contract for advertising which could bring savings to partners; and
- It would be useful if EKHR requested confirmation/evidence that all vacant posts are approved to be filled, particularly as each partner has a slightly different process in this regard.

## **2.5 EKS ICT Management & Finance - Substantial Assurance:**

### 2.5.1 Audit Scope

To ensure that the controls over the management tasks and financial administration of the ICT function within EK Services are robust and sufficient to enable the partner councils to place reliance upon them.

### 2.5.2 Summary of Findings

EK Services is a shared service function which supplies various services to the councils of Canterbury, Dover and Thanet with one of those service functions being ICT.

The ICT annual budget is £2.4M and the total spend on ICT across the partnership is circa £4.5M. The EK Services ICT service supports around 1500 users across the partner organisations.

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

- There are formal agreements in place regarding the ICT service, including the Collaboration Agreement and specific ICT Service Level Agreements.
- There are approved staffing structures in place for the service.
- Staffing and financial processes are undertaken in compliance with Thanet Council's approved policies and procedures as the hosting authority.
- There is a risk management system in place regarding ICT specific risks.
- The East Kent Corporate Information Governance Group is currently reviewing and approving the raft of ICT Policies for adoption by the Councils, for users.
- Information and performance is supplied to the client officers, East Kent Strategic Board and the East Kent Services Committee.

Scope for improvement was however identified in the following area:

- Additional guidance could be added to the Thanet HR policy regarding disciplinary procedures in respect of ICT officers and system administrators.

## **2.6 Receipt & Opening of Tenders - Substantial Assurance:**

### 2.6.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council's procedures for the receipt and opening of tenders is in accordance with Contract Standing Orders and ensures the probity of the tendering procedure.

### 2.6.2 Summary of Findings

The area under review has some linkage with Corporate Priority 4 (Smarter Council) and, in particular, the objective of *'Delivering good, value for money, services'* and the 2020 aim to *'Keep tight control of spend, with management of assets, procurement and income'*. The area under review also has some linkage with Corporate Risk No. 8: *Corporate governance and ethical standards are not maintained resulting in a lowering in public perception of the Council.*

The Council has been solely using an online e-procurement system for its procurement activities since 2015. The 'Kent Business Portal' is hosted by a company called *'Proactis'* and subcontracted to Dover District Council by KCC along with other district authorities in Kent. In 2017/18 the fee for user system support will be £1,500. Since July 2015 the Council has awarded 33 contracts and received 89 quotes or returned tenders through the system. There are also nine further contracts going through various stages of the procurement process at the point this audit was completed.

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

- The Contract Standing Orders and system based technical notes are well documented;
- Sample testing of ten recently awarded contracts revealed no control weaknesses;
- Segregation of duties and system governance arrangements are effective and help sufficiently minimise but not eliminate the potential for fraud or error;
- System user access controls were adequately employed; and
- The system based audit trail is very comprehensive.

## **2.7 Garden Waste & Recycling Income – Reasonable Assurance.**

### 2.7.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure:

- The green waste service is being correctly charged for, in accordance with Council policy and that all income is correctly received and reconciled where the green waste service is being provided.
- The waste recycling income, comprising green waste, food waste, paper/card, glass, tin and plastic is being correctly charged for, in accordance with Council policy / agreements and that all income is correctly received and reconciled.

### 2.7.2 Summary of Findings

Under the Corporate Plan 2016-2020 Dover District Council's (DDC) second priority is a '*Clean, Green and Safe Environment*' which includes focusing on '*Delivering an effective and value for money recycling and refuse collection service*'.

DDC offers a Garden Waste Recycling Scheme for an annual subscription fee and a free household waste recycling collection scheme; items that DDC are unable to collect can be taken to a waste recycling centre. Full details of the scheme are available on DDC's Website.

At the time of the review the Waste Services Team reports that there are 5,475 subscribers to the scheme.

The original budget for Garden Waste Recycling Subscription Income for 2016/2017 was £199,750; the actual income at 25/11/2016 taking into account correction of miscodings was £223,666.02. This equated to an excess of approximately £23,900 at this time. The original budget for Garden Waste Sacks sales for 2016/2017 was £8,000; the actual income at 03/01/2017 was £10,506. However, this includes VAT which has not been correctly deducted from 51% of the sacks sold.

Management can largely place Reasonable Assurance on the system of internal controls in operation. There is however some evidence of non-compliance with key controls (particularly those surrounding income reconciliation) which suggests a lower assurance opinion. The assurance level will therefore be re-reviewed at the time of follow-up to assess the impact of the implementation of the recommendation contained within this report.

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

- DDC's waste recycling charges are reviewed annually and approved by Cabinet and the correct fees and charges were advertised on DDC's Website.
- Garden Waste Recycling income collection procedures are in place, are largely effective, and documented although some updating is required.
- Agreements are in place for the sales of recyclables.
- Income is banked promptly.
- Performance data is collated and reported.

Scope for improvement was however identified in the following areas:

- There is a lack of income reconciliation for the Garden Waste Recycling Subscription and sacks sales.
- There is no reconciliation of expected subscribers to those in actual receipt of the service.
- The VAT element for garden waste sacks sales has not been correctly dealt with for approximately 50% of sales. However, this should not be a significant

adjustment and it should be possible to make this adjustment on the next monthly VAT return.

- There is a lack of authorisation and/ or document trail for the processing of duplicate payment refunds.
- There is a lack of stock control over the garden waste sacks and the subscription tags.

## **2.8 Performance Management – Reasonable/Limited Assurance.**

### 2.8.1. Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the Council is taking action in response to actual performance to make outcomes for users and the public better than they would otherwise be.

### 2.8.2 Summary of Findings

There are seventy-five performance indicators in place across all Council departments and its partners. These indicators are verified by service managers before being collated by Corporate Services on a quarterly basis. Fifty-two of the performance indicators are considered 'Key Performance Indicators (KPIs)' and are regularly reported to CMT, the Cabinet and to the Scrutiny (Policy & Performance) Committee.

The area under review is directly linked to Strategic Priority 4: *An effective and efficient Council*, and, as a service function, also supports all of the Council's other three Strategic Priorities. The area is also directly linked to Corporate Risk 7: *Corporate performance standards are not maintained resulting in adverse publicity and damage to the Council's reputation*.

Management can place Reasonable Assurance on the system of internal controls in operation for performance management, however Limited Assurance for the link from corporate goals and objectives through business plans to individual targets within staff appraisals.

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

- The Council has an approved Performance Management Framework which is well documented;
- The Covalent software application system is well utilised and provides useful performance reports in a format that is easily understood;
- The Key Performance Indicators and targets in place help provide management, the Cabinet and Scrutiny with reliable and timely information and analysis;
- The Risk Management Strategy and the Performance Management Framework support one another which helps promote best practice.
- Validation controls are working effectively.

Scope for improvement was however identified in the following areas:

- The 'golden thread' which links the high level strategic Corporate Objectives to departmental objectives and individual staff objectives and targets is missing;

- The staff appraisal process is not applied consistently at all levels and the setting and achievement of targets could be significantly improved by strengthening the governance controls ;
- Departmental Business Plans could be documented more effectively and undertaken more consistently;
- The service area based outside of the main offices which does not follow the approved Performance Management Framework should be noted and addressed if deemed necessary; and
- There were also a number of minor administrative issues raised in the report that need to be resolved.

## 2.9 EK Services – Housing Benefit Quarterly Testing (Quarter 2 & 3 of 2016-17):

### 2.9.1 Background:

Over the course of 2016/17 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.

### 2.9.2 Findings:

For the second and third quarters of 2016/17 financial year (July to December 2016) 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.

### 2.9.3 Audit Conclusion:

Forty benefit claims were checked and of these three had a financial error that impacted on the benefit calculation (7.5%). In all three instances the weekly rent figure had been calculated incorrectly. Two of the errors were for the same address so consideration should be given to reviewing all of those at this address to ensure that they are correct.

## 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)	Procurement	Reasonable	Reasonable	C	0	C	0
				H	1	H	0
				M	3	M	1
				L	2	L	1

Service/ Topic		Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstanding	
b)	EKS – ICT PC Controls	Reasonable	Reasonable	C	0	C	0
				H	0	H	0
				M	6	M	0
				L	0	L	0
c)	EKS – ICT External Review	Reasonable	Reasonable	C	0	C	0
				H	0	H	0
				M	1	M	0
				L	7	L	4
d)	Cemeteries	Reasonable	Reasonable	C	0	C	0
				H	0	H	0
				M	0	M	0
				L	1	L	1
e)	Disabled Facilities Grants	Substantial	Substantial	C	0	C	0
				H	0	H	0
				M	2	M	1
				L	2	L	0

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

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

#### 4.0 WORK-IN-PROGRESS:

- 4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Planning Applications, Income and s106 Agreements, Homelessness, Anti Fraud & Corruption, and Land Charges.

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

- 5.1 The 2016-17 Audit plan was agreed by Members at the meeting of this Committee on 24<sup>th</sup> March 2016.
- 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 31<sup>st</sup> December 2016, 203.82 chargeable days were delivered against the planned target of 284.10, which equates to 72% plan completion.
- 7.2 The financial performance of the EKAP is currently on target at the present time.
- 7.3 As part of its commitment to continuous improvement and following discussions with the s.151 Officer Client Group, the EKAP has improved on the range of performance indicators it records and measures. The performance against each of these indicators 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 <sup>st</sup> December 2016 against the agreed 2016/17 Audit Plan.    |
| Annex 4 | EKAP Balanced Scorecard of Performance Indicators to 31 <sup>st</sup> December 2016. |
| Annex 5 | Assurance statements   |

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

<b>Original Recommendation</b>	<b>Agreed Management Action, Responsibility and Target Date</b>	<b>Manager’s Comment on Progress Towards Implementation.</b>
<i>None to report this Quarter</i>		



<b>SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED</b>			
<b>Service</b>	<b>Reported to Committee</b>	<b>Level of Assurance</b>	<b>Follow-up Action Due</b>
EKS – PCI DCC	September 2016	Limited	Spring 2017
Playgrounds	December 2016	Limited	Spring 2017
Performance Management	March 2017	Reasonable/Limited	Summer 2017

## PROGRESS AGAINST THE AGREED 2016-17 AUDIT PLAN.

## DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Treasury Management	5	5	4.67	Finalised - Substantial
Main Accounting System	10	10	2.34	Finalised - Substantial
Budgetary Control	10	10	7.41	Finalised - Substantial
Insurance & Inventories of Portable Assets	10	10	14.93	Finalised - Substantial
<b>RESIDUAL HOUSING SYSTEMS:</b>				
Homelessness	10	10	0.25	Work-in-Progress
HRA Business Plan	10	10	0.45	Work-in-Progress
<b>GOVERNANCE RELATED:</b>				
Data Protection, FOI, and Information Records Management	10	11	11.41	Finalised – Reasonable
Officers' Code of Conduct & Gifts and Hospitality	10	0	0.24	Postpone until 2017-18; replace with unplanned reviews
Anti-Fraud & Corruption	10	10	0.17	Work-in-Progress
Performance Management	10	10	11.85	Finalised - Reasonable/Limited
Corporate Advice/CMT	2	2	3.09	Work-in-Progress throughout 2016-17
s.151 Meetings and support	9	9	8.9	Work-in-Progress throughout 2016-17
Governance Committee Meetings and Reports	12	12	10.91	Work-in-Progress throughout 2016-17
2017-18 Audit Plan Preparation and Meetings	9	9	5.39	Work-in-Progress
<b>CONTRACT RELATED:</b>				
Receipt & Opening of Tenders	8	8	0.18	Finalised - Substantial
<b>SERVICE LEVEL:</b>				
Cemeteries	10	10	9.03	Finalised - Reasonable
Safeguarding Return to KCC (s11)	1	0	0	Not Required

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
Food Safety	10	0	0	Postpone until 2017-18; replace with unplanned reviews
Port Health	10	0	1.11	Postpone until 2017-18; replace with unplanned reviews
Contaminated Land	10	0	0.21	Postpone until 2017-18; replace with unplanned reviews
Business Continuity & Emergency Planning	10	10	17.83	Finalised - Reasonable
Disabled Facilities Grants	10	10	10.78	Finalised - Reasonable
Land Charges	10	10	0.17	Work-in-Progress
Licensing	10	0	0.3	Postpone until 2017-18; replace with unplanned reviews
Members Allowances	10	10	4.67	Finalised - Substantial
Planning Applications, Income & s.106 Agreements	12	12	0.22	Work-in-Progress
<b>OTHER</b>				
Liaison with External Auditors	2	0	0	Work-in-Progress throughout 2016-17
Follow-up Work	10	10	14.32	Work-in-Progress throughout 2016-17
<b>FINALISATION OF 2015-16- AUDITS</b>				
Grounds Maintenance	5	5	0.68	Finalised - Limited
Shared Service Monitoring			3.95	Finalised – Reasonable
Commercial Properties and Concessions			8.7	Finalised - Reasonable
Dog Warden & Litter Enforcement			3.96	Finalised - Reasonable
Election Management			2.63	Finalised - Reasonable
Equality & Diversity			10.89	Finalised - Reasonable
Recruitment			5.63	Finalised - Substantial
Procurement			0.27	Finalised - Reasonable
Days under delivered in 2015-16	0	14.1	0	Completed
<b>UNPLANNED WORK:</b>				

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
Cash Counting Arrangements	0	2	1.9	Finalised
Right to Buy	0	8	0.17	Work-in-Progress
Playgrounds	0	8	9.99	Finalised - Limited
Garden Waste & Recycling Income	0	8	9.37	Finalised - Reasonable
Inward Investment, External Funding & Project Management	0	26	1.35	Quarter 4
<b>EK HUMAN RESOURCES</b>				
Payroll	5	5	0.78	Work-in-Progress
Employee Benefits in Kind	5	5	0	Work-in-Progress
Leavers and Disciplinary	5	5	2.72	Work-in-Progress
<b>TOTAL</b>	<b>270</b>	<b>284.10</b>	<b>203.82</b>	<b>72% as at 31<sup>st</sup> December 2016</b>

**EAST KENT HOUSING LIMITED:**

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
<b>Planned Work:</b>				
Governance	15	0	0	Postponed to future audit plan
Finance Systems and ICT Controls	15	10	0	Postponed to future audit plan
Finance & Audit Sub Cttee/Plan/CMT	3	4	3.61	Work-in-progress throughout 2016-17
Follow-up Reviews	3	4	4.96	Work-in-progress throughout 2016-17
Rent Accounting & Collection	15	0	0	Postponed to future audit plan
Tenancy & Estate Management	29	22	20.35	Finalised - Substantial
Days over delivered in 2015-16	0	-18.15		Completed
<b>Unplanned Work:</b>				
Procurement	0	15	14.92	Finalised
Repairs and Maintenance Contract Query	0	0	0.6	Finalised
Performance Indicator Data Quality	0	10	0	Work-in-Progress

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
Single System Controls	0	15	2.12	Postponed until 2017-18
<b>Total</b>	<b>80</b>	<b>61.85</b>	<b>46.55</b>	<b>75% at 31-12-2016</b>

#### EK SERVICES:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2016	Status and Assurance Level
<b>Planned Work:</b>				
Housing Benefit Overpayments	15	14	13.85	Finalised - Substantial
Fraud Investigations	15	0	0.64	No longer required
Housing Benefit Subsidy	15	10	0.26	Quarter 4
Council Tax	30	15	0.37	Quarter 4
Customer Services	15	15	15.31	Finalised - Substantial
ICT Change Controls	12	11	3.56	Quarter 2
ICT Software Licensing	12	11	0.5	Work-in-progress
ICT Network Security	12	11	0.37	Quarter 4
Corporate/Committee	8	7	5.4	Ongoing
Follow-up	6	4	2.63	Work-in-progress throughout 2016-17
DDC / TDC Quarterly Housing Benefit Testing	20	20	9.28	Work-in-progress throughout 2016-17
Housing Benefit +40 testing	0	17	17.95	Completed
Finalisation of 2015-16 work-in-progress	0	25.00	26.25	Completed
Days under delivered in 2015-16	7.33	7.33	7.33	Completed
<b>Total</b>	<b>167.33</b>	<b>167.33</b>	<b>103.70</b>	<b>62% at 31-12-2016</b>

**BALANCED SCORECARD – QUARTER 3**

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Original Budget</u>
	Quarter 3		Reported Annually		
Chargeable as % of available days	85%	80%	• Cost per Audit Day	£	£326.61
Chargeable days as % of planned days			• Direct Costs	£	£419,420
CCC	76%	75%	• + Indirect Costs (Recharges from Host)	£	£11,700
DDC	72%	75%	• - 'Unplanned Income'	£	Zero
SDC	68%	75%	• = Net EKAP cost (all Partners)	£	£431,120
TDC	86%	75%	• Saving Target	£	10%
EKS	62%	75%			
EKH	75%	75%			
Overall	73%	75%			
Follow up/ Progress Reviews;					
• Issued	57	-			
• Not yet due	19	-			
• Now due for Follow Up	35	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

**BALANCED SCORECARD – QUARTER 3**

<u>CUSTOMER PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>	<u>INNOVATION &amp; LEARNING PERSPECTIVE:</u>	<u>2016-17 Actual</u>	<u>Target</u>
	Quarter 3			Quarter 3	
Number of Satisfaction Questionnaires Issued;	59		Percentage of staff qualified to relevant technician level	83%	75%
Number of completed questionnaires received back;	29 = 49 %		Percentage of staff holding a relevant higher level qualification	36%	32%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	28%	N/A
<ul style="list-style-type: none"> <li>• Interviews were conducted in a professional manner</li> <li>• The audit report was 'Good' or better</li> <li>• That the audit was worthwhile.</li> </ul>	100%	100%	Number of days technical training per FTE	0.91	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	36%	32%

## Definition of Audit Assurance Statements & Recommendation Priorities

### 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.

### Priority of Recommendations Definitions:

**Critical** – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation's ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

**High** – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

**Medium** – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

**Low** – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.



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**Subject:** INTERNAL AUDIT CHARTER AND DRAFT PLAN 2017-18

**Meeting and Date:** Governance Committee – 6<sup>th</sup> April 2017

**Report of:** Christine Parker – Head of Audit Partnership

**Decision Type:** Non-key

**Classification:** Unrestricted

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**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 2017/18 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 2017/18

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**Summary.**

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, 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.**

2.1 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.

2.2 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.

2.3 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 was suggested last year that this be approved for the next three years (to 31<sup>st</sup> March 2020) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) certain aspects of the Charter were refreshed, consequently the attached version contains the tracked changes as showing, so that the areas updated can be easily identified. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2020.

### **3.0 2017-18 Internal Audit Plan.**

3.1 The Audit Plan for the year 2017 to 2018 is attached as Annex A 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 strategic 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 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 2017/18 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 plan, these are listed at the foot of Annex B, and total 58 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 2017/18 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;

- 82% Core Assurance Projects- the main Audit Programme
  - 0% 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 20.

For 2017/18 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 20 audits.

#### **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 councils 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 Opinion of the 2017/18 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 the professional opinion of the Head of the East Kent Audit Partnership that the draft 2017/18 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 2017/18 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.

#### **6.0 Background Papers.**

- Internal Audit Annual Plan 2016/17 - Previously presented to and approved at the March 2016 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Former Audit Charter and Strategies - Previously presented to and approved at Governance and Audit Committee meetings.

#### **Attachments**

Annex A     Audit Charter  
Annex B     Dover District Council draft 2017/18 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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## **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 as required by Section 6 of the Accounts and Audit Regulations 2015.

## **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**

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

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

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 critical or high risk matters outstanding after follow up.

3.3.3 The Head of Audit Partnership has unrestricted access to the s.151 Officer, the Monitoring Officer and the Head of Paid Service as appropriate. Engagement with the statutory officers is not prescribed, however regular attendance at CMT with IA updates is desirable.

### 3.4 Reporting Relationship with the Partners

- 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 s.151 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 is 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.

The Accounts and Audit Regulations section 5 requires that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Charter sets out how the EKAP will meet this requirement.

### 3.5 **Relationship with Audit Committees**

Please note the PSIAS refer to the 'board', and it is expected that the audit committee will fulfil the role of the board in the majority of instances.

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 Accounts and Audit Regulations section 3 requires that a relevant authority has a sound system of internal control which

- facilitates the effective exercise of its functions and the achievement of its aims and objectives,
- ensures that the financial and operational management of the authority is effective, and
- includes effective arrangements for the management of risk.

This Charter establishes how the EKAP contributes to complying with the regulations and creates the link to the Annual Governance Statement. The Committee will also approve the annual work plan for their Council.

The Head of Audit Partnership will escalate any critical or high-risk matters of concern that have not been adequately actioned by management at the progress report stage to the committee via the quarterly update report, drawing attention to significant matters in the annual report. The Head of Audit Partnership may meet privately with the chair of the audit committee and has direct access to the committee should this be required.

The Audit Committee will note decisions relating to the appointment and removal of the Head of Audit Partnership.

### 3.6 **Relationship with External Audit**

- 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.

- 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 contractors, staff or 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 the audit committee.
- 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 2017/18 is £396,500 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 (particularly 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 has presented the options for an external quality assessment to be undertaken before October 2017. However, the s.151 Client Officer Group at its meeting held 16.11.16 has decided to not spend resources on an External Quality Assessment.

## 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.

The s.151 Officer will keep the Head of Audit Partnership apprised via the regular meetings of any disciplinary action taken by the council that may be relevant to internal audit planning and risk assessments, if staff have been found to act deceitfully or circumvent controls etc.

## **8.2 Ad Hoc / Consultancy Work/ External Bodies**

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.

Requests for assurance work from external bodies are not anticipated, nor does the EKAP have capacity or spare resource to deliver such requests. However, in the event that a request is received, the s.151 Client Officer Group would consider and authorise such an undertaking and a separate legal agreement confirming the engagement would be drawn up with DDC as the host authority (EKAP not being a separate legal entity). The Head of Audit Partnership would give the same consideration to conflicts of interest, capacity, skills and competency when assessing the scope of the work, as it if were an internal assignment, before agreeing to undertake the engagement

## **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 2017

**References:**

Former Audit Strategy

Audit Manual

Public Sector Internal Audit Standards (PSIAS)

CIPFA Local Government Application Note to PSIAS

Plan Area	Corporate Plan and/or Corporate Risk Ref.	Year last audited	Previous Assurance level	2017-18 Planned Days	Quarter Prioritised for 2017-18	2018-19 planned days	2019-20 Planned Days	2020-21 Planned Days
<b>Financial Systems:</b>								
Capital	CR3	2015-16	Reasonable			5		
Treasury Management	CR4	2016-17	Substantial			5		
Car Parking & Enforcement	CP1	2014-15	Substantial	12	2		12	
Bank Reconciliation		2015-16	Substantial			5		
Creditors and CIS		2014-15	Reasonable	12	3			
External Funding Protocol	CP1 & CP4	New Area	To be Assessed	10	2			
Main Accounting System	CP4 & CR3	2016-17	Substantial				10	
Income	CP4	2014-15	Substantial	10	3			10
Budgetary Control	CP4, CR3 and CR11	2016-17	Substantial				10	
VAT		2015-16	Reasonable			10		
Insurance and Inventories of Portable Assets		2016-17	Substantial				12	
<b>Residual Housing Systems:</b>								
Homelessness	CR12	2016-17	2016-17 WIP					10
Housing Allocations	CP3 & CR12	2015-16	Substantial				10	
Right to Buy		2016-17	2016-17 WIP					8
HRA Reviews		2016-17	See EKH Plan	15	1 to 4	15	15	15
HRA Business Plan	CP3	2016-17	2016-17 WIP					10
<b>Governance Systems:</b>								
Data Protection, FOI and Information Management	CP4 & CR15	2016-17	Reasonable			11		11
Members' Code of Conduct, Register of Interests, Gifts and Hospitality, and Standards Arrangement	CP4	2015-16	Substantial				10	
Officers' Code of Conduct and Gifts and Hospitality	CP4	2012-13	Substantial	10	1			
Local Code of Corporate Governance	CP4	2013-14	Substantial	8	2			
Anti-Fraud & Corruption (including: The Bribery Act, Money Laundering and Whistle Blowing Arrangements)		2016-17	2016-17 WIP					10
Performance Management	CP4 & CR21	2016-17	Reasonable /Limited					10
Complaints Monitoring	CP4	2014-15	Substantial			10		
Shared Services Monitoring	CP4, CR9 & CR10	2015-16	Reasonable			10		
Partnerships		2011-12	Reasonable			10		
Scheme of Officer Delegations	CP4	2007-08	Reasonable	7	2			
Corporate/Governance and Audit Committee		2015-16	N/A	32	1 to 4	32	32	32
Project Management	CP4	New Area	To be Assessed	10	3			
Risk Management	Informs all Corporate Risks	2015-16	Reasonable			10		
<b>Other:</b>								
Liaison with the External Auditors	N/A	2016-17	N/A	1	1 to 4	1	1	1
Previous Year Work in Progress b/fwd	N/A	2016-17	N/A	5	1	5	5	5
Follow-up	N/A	2016-17	N/A	15	1 to 4	15	15	15
<b>Contract Audits:</b>								
CSO Compliance	CP4	2014-15	Reasonable	12	1			15
Service Contract Monitoring	CP4	2013-14	Substantial	10	4			
Receipt and Opening of Tenders	CP4	2016-17	2016-17 WIP					10
Procurement	CP4	2015-16	Reasonable				10	
<b>Service Level Audits:</b>								

Inward Investment	CP1	2016-17	2016-17 WIP					10
Cemeteries		2016-17	Reasonable					10
Safeguarding Children and Vulnerable Groups/DBS Checks	CP3	2014-15	Reasonable			10		
s11 Safeguarding Return to KCC	CP3	2016-17	N/A	1	3	1	1	1
Private Sector Housing – HMO Licensing and Selective Licensing	CP3	2014-15	Reasonable			10		
Community Safety	CP2	2015-16	Substantial				10	
Coastal Management		2013-14	Substantial	10	1			
CCTV	CP2	2013-14	Substantial	10	3			
Dog Warden Service, Street Scene and Litter Enforcement (incl. graffiti and flytipping)	CP2	2015-16	Reasonable				10	
Electoral Registration & Election Management	CP3 & CR14	2015-16	Substantial				15	
Environmental Health – Food Safety	CP2 & CP3	2013-14	Substantial			10		
Environmental Health – Public Health Burials	CP3	2015-16	Reasonable				10	
Environmental Health - Port Health	CP3	2012-13	Substantial	10	2			
Environmental Health – Pest Control	CP3	2014-15	Substantial			10		
Environmental Health – Health and Safety at Work	CR8	2015-16	Substantial				10	
Environmental Health - Environmental Protection Service Requests	CP3	2015-16	Substantial				10	
Environmental Health - Contaminated Land, Air and Water Quality	CP3	2013-14	Reasonable	10	1			
Business Continuity and Emergency Planning	CR7	2016-17	Reasonable					10
Playgrounds	CP3	2016-17	Limited					10
Legal Services		Not audited by EKAP, assurance is instead provided by LEXCEL accreditation						
Equality and Diversity	CP3 & CR13	2015-16	Reasonable				10	
Events Management		Pre 2004-05	To be Assessed			10		
Health and Wellbeing	CP3	New Area	To be Assessed	10	4			
Grounds Maintenance	CP2 & CP4	2015-16	Limited	15	4			15
Disabled Facilities Grants	CP3	2016-17	Substantial					10
Land Charges		2016-17	2016-17 WIP					10
Licensing	CP3	2012-13	Reasonable	12	3			
Museum and VIC	CP1	2015-16	Substantial				15	
Asset Management	CP4	2008-09	Reasonable	15	3			
Commercial Properties and Concessions (incl allotments, Industrial estates, Media Centre, Innovation centre etc)	CP4	2015-16	Reasonable				12	
Members' Allowances and Expenses		2016-17	Substantial					10
Planning Applications, Income and s106 Agreements	CR20	2016-17	2016-17 WIP					12
Local Plan		New Area	To be Assessed			10		
Building Control		2015-16	Reasonable			12		
Petty Cash, Imprest Floats and Travel Warrants		Pre 2004-05	To be Assessed			8		
Phones, Mobiles and Utilities - Expenditure and Controls		Pre 2004-05	To be Assessed	8	2			
Printing, photocopying and postage		2015-16	Substantial				10	
Your Leisure - Sports and Leisure	CP1 & CP3	2015-16	Reasonable				15	
Sports Development	CP1 & CP3	2014-15	Reasonable			10		
Whitecliffs Countryside and Up on the Downs	CP2	2014-15	Reasonable			10		
Waste Management and Street Cleansing	CP2	2014-15	Reasonable			15		
Garden Waste and Recycling Income	CP2	2016-17	Reasonable					10

Climate Change	CP2	New Area	To be Assessed			10		
<b>Total Planned Days:</b>				<b>270</b>		<b>270</b>	<b>270</b>	<b>270</b>

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<b>Subject:</b>	<b>TREASURY MANAGEMENT QUARTER THREE REPORT 2016/17</b>
<b>Meeting and Date:</b>	<b>Governance – 6<sup>th</sup> April 2017</b>
<b>Report of:</b>	<b>Mike Davis – Director of Finance, Housing &amp; Community</b>
<b>Portfolio Holder:</b>	<b>Councillor Mike Connolly – Portfolio Holder for Corporate Resources and Performance</b>
<b>Decision Type:</b>	<b>Non-Key Decision</b>
<b>Classification:</b>	<b>Unrestricted</b>

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<b>Purpose of the report:</b>	To provide details of the Council's treasury management for the quarter ended 31 December 2016 (Q3) and an update of activity to date.
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<b>Recommendation:</b>	That the report is received
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## 1. Summary

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

The Council's investment return for the year-to-date was 0.57% (YTD), which outperformed the benchmark<sup>1</sup> by 0.34%. Although this return is reducing slightly as the year progresses due to interest rates on deposits coming down, the benchmark is also reducing for the same reason and the Council is performing favourably in relationship to it. The Council's budgeted investment return for 2016/17 is £329k, and performance for the full year is estimated to be £341k, which is £12k ahead of budget. This takes into account expected reductions in interest rates on assumed rollover of term deposits on maturity, but not any further reduction in the bank base rate which could impact performance by the end of the year.

## 2. Introduction and Background

CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2009; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

Council adopted the 2016/17 Treasury Management Strategy (TMS) on 2<sup>nd</sup> March 2016 as part of the 2016/17 Budget and Medium Term Financial Plan. Updates to the TMS were approved at Council on 28<sup>th</sup> September 2016 and 30<sup>th</sup> November 2016 to increase borrowing limits for the new Dover Leisure Centre project and the property investment strategy respectively.

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

In order to comply with the CIPFA code referred to above, a brief summary is provided below and Appendix 1 contains a full report from the Council's Treasury Management Advisers, Capita.

Members are asked to note that in order to minimise the resource requirements in producing this report, Capita's report has been taken verbatim. Capita generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Capita's work, this has not been edited out.

As at 31<sup>st</sup> December 2016, the Council's investment portfolio totalled £52.7m (see Appendix 2). However, some of this may be shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2016/17 and 2017/18 on the new Dover leisure centre and town hall refurbishment (subject to project approvals).

An additional £3m was transferred from cash flow funds into the investment portfolio during February 2017 (increasing its value to £55.7m) to improve returns. This was lent to Eastleigh Borough Council for six months at 0.43%, reducing short term cash to mitigate the impact of low overnight deposit rates, as our operating bank, NatWest, has recently decreased the rate on its SIBA (overnight) account from 0.25% to 0.01%. A report in the "The MJ" (the management journal for local authority business) on 26<sup>th</sup> January 2017, about the growth in inter-authority lending, stated: "Borrowers get access to lending at rates that tend to be lower than those available elsewhere in the market and lenders gain through higher returns relative to a bank deposit... By 2015/16, 65% of single tier and county councils were active in the inter-authority market and the number borrowing on a long-term basis doubled since 2011." Although it has been some time since the Council has loaned money to other local authorities, it is within the terms of the TMS and a normal practice, and considered to be low risk.

The post-Brexit reduction in bank base rate, the on-going pressure on interest rates generally, and the reduction in deposit durations permissible for part nationalised banks following reductions in the Government's stakes in them, continue to place pressure on returns from banks and building societies. However, keeping funds with such highly credit-rated institutions for the currently recommended maximum six-month deposit durations remains a low risk strategy that maintains security of capital as far as possible in the uncertain post-Brexit economic climate.

### **3. Annual investment strategy**

The investment portfolio, as at the end of December, is attached at Appendix 2. Core balances for investment are £52.7m. Since the end of the quarter, four deposits have matured and been reinvested for six months with the same banks and building societies, being: £1m with Nationwide on 4<sup>th</sup> January (rate decrease 0.55% to 0.42%), £2m with Lloyds on 30<sup>th</sup> January (rate decrease 0.8% to 0.6%), £3m with Nationwide on 1<sup>st</sup> February (rate decrease 0.47% to 0.37%), and £3m with Nationwide on 24<sup>th</sup> February (rate decrease 0.40% to 0.37%). Additionally, a further £3m was transferred from short term cash and lent to Eastleigh Borough Council on 24<sup>th</sup> February, as mentioned in (2) above, increasing core balances for investment to £55.7m (see Appendix 4), albeit potentially on a temporary basis depending on capital requirements.



Following the Brexit vote and the reduction in bank base rate, interest rates have dropped with all institutions. No further base rate cut is predicted to happen during the 2016/17 year but, while the “above budget” forecast for the year includes allowance for deposits rolling over at the new lower rates, if there are further interest rate cuts with individual institutions, these could put pressure on investment income for 2016/17 and beyond.

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.

Cash-flow funds had decreased from 30<sup>th</sup> September (£18.3m) to 31<sup>st</sup> December 2016 (£14.2m - see Appendix 2), partly reflecting the transfer of £8m from short-term cash-flow funds into the investment portfolio to generate better rates of return, offset by other temporary increases in cash-flow funds, but have then decreased further at the end of February 2017 to £5.9m (see Appendix 4). This is partly due to a further transfer of £3m from short-term cash flow funds into the investment portfolio on 24<sup>th</sup> February (Eastleigh), and a £2.57m payment to acquire land at Whitfield for the new leisure centre (also on 24<sup>th</sup> February). The decrease also reflects the normal reduction in cash flow funds at this time of year, arising from the timing of ‘major preceptor’ payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline. Additionally, there will be a further PWLB loan instalment to pay at the end of March 2017 of £2.35m, after which, cash balances will build again, subject to the timing of capital projects and related payments (and receipts).

#### 4. Economic background

The report attached (Appendix 1) contains information up to the end of December 2016; since then we have received an update from Capita, included below. Please note that any of their references to quarters are based on *calendar* years:

##### **Introduction**

*The UK economy grew by 0.7% in the final quarter of 2016. Data since then has suggested that the economy will continue to grow but that this may be at a slower rate than previously. The influence of US interest rate policy and geo-political developments in the Eurozone are likely to impact UK gilt yields over the course of 2017 but in what manner is not clear at present.*

*The Bank of England February Inflation Report stated the following:*

- *There would be an increase in the forecast for GDP growth for 2017 from 1.4% to 2.0% and for 2018 from 1.5% to 1.6%, indicating the UK economy has been, and is likely to be, much more resilient to the effects of Brexit uncertainty than had been expected last August. The Bank quoted the easing of the fiscal squeeze and stronger global economic data in its latest reasoning.*
- *Inflation (Consumer Price Index measure) is expected to peak somewhere close to 2.5%, and below 3%, although there were comments around the £ strengthening in value somewhat over the last quarter and this movement could easily be reversed in the current volatile market.*

- *The equilibrium rate of unemployment was cut from 5.0% to 4.5%. This potentially means that the MPC could wait longer before taking action to combat rising inflation.*
- *Some MPC members were clearly concerned about the degree to which they could look through increases in inflation caused by the effective devaluation of the £ since the Referendum and the consequent feed through into CPI.*

*In the US, there is a clear expectation that monetary policy will tighten in March and possibly several other times in 2017 as the Trump administration seek to boost economic activity through heavy infrastructure spending in order to underpin jobs growth but with possible inflationary effects. The CPI measure of US inflation is currently at 2.5%.*

### **Inflation**

*UK headline CPI increased by 1.8% year on year for January. The Retail Prices Index (RPI) measured inflation as increasing at 2.6% year on year. The Producer Prices Index (PPI) is increasing at over 20% year on year, and these costs may be passed on to consumers in part in due course.*

### **UK Public Finances**

*The UK public finance release in February showed that the government is on target to achieve its £68.2bn net Public Sector Borrowing Requirement in 2017/18 and perhaps better than that number by £10bn. However, any out-performance is likely to see the majority of monies “banked” in the event that there is some uncertainty in the UK’s economic performance over the coming months.*

### **Employment**

*Total weekly earnings increased (including bonuses) by 2.6% year on year. Meantime, unemployment has remained at sub 5%, the latest reading coming in at 4.8%.*

*There were fears that the Brexit vote would lead to widespread job losses in the immediate aftermath but these fears were not realised. Nevertheless, labour market indicators tend to lag behind the wider economy and thus we may have to wait some time before the post-referendum/Brexit labour market effects are translated into hard data.*

### **Europe**

*Given the number and type of challenges the EU faces over the next year or so, there is an identifiable risk for the EU project to be called into fundamental question. The risk of an electoral revolt against the EU establishment has gained traction after the shock results of the UK referendum and the US Presidential election. But it remains to be seen whether any shift in sentiment will gain sufficient traction to produce any further shocks. The main risks to uncertainty are set out below:*

- **Greece** continues to cause major stress in the EU due to its tardiness and reluctance in implementing key reforms required by the EU to make the country more efficient and to make significant progress towards the country

*being able to pay its way – and before the EU is prepared to agree to release further bailout funds. A crunch point is imminent this summer when Greece needs to make major repayments it will not be able to make unless there is a new bail out which is very unlikely ahead of the general election due in Germany before late October.*

- **Spain** has had two general elections in 2015 and 2016, both of which failed to produce a workable government with a majority of the 350 seats. At the eleventh hour on 31 October, before it would have become compulsory to call a third general election, the party with the biggest bloc of seats (137), was given a majority confidence vote to form a government. This is potentially a highly unstable situation, particularly given the need to deal with an EU demand for implementation of a package of austerity cuts which will be highly unpopular.
- **4 December Italian constitutional referendum** on reforming the Senate and reducing its powers; this became a confidence vote on Prime Minister Renzi who duly resigned when he lost the vote. The rejection of these proposals could stop progress on fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth. They were also intended to give Italy more stable government, as no western European country has had such a multiplicity of governments since the Second World War as Italy, due to the equal split of power between the two chambers of the Parliament which are both voted in by the Italian electorate but by using different voting systems. This means there is now major uncertainty about the road ahead for Italy.
- **Dutch general election 15 March**; a far right party is currently polling neck and neck with the incumbent ruling party. In addition, anti-big business and anti-EU activists have already collected two thirds of the 300,000 signatures required to force a referendum to be taken on approving the "EU – Canada free trade" pact. This could delay the pact until a referendum in 2018 which would require unanimous approval by all EU governments before it can be finalised. In April 2016, Dutch voters rejected by 61.1% an EU – Ukraine cooperation pact under the same referendum law. Dutch activists are concerned by the lack of democracy in the institutions of the EU. The ability of just one nation among 27 nations in the post Brexit EU to halt progress on international agreements poses an identifiable risk to the UK in negotiations with the EU on the terms of Brexit.
- **French presidential election**; first round 13 April; second round 7 May.
- **German Federal election** August – 22 October. This could be affected by significant shifts in voter intentions as a result of terrorist attacks, dealing with a huge influx of immigrants and a rise in anti EU sentiment.

*With regard to EU economic activity, GDP was 1.7% for the bloc in 2016. However, whereas Spain, and Germany to a lesser extent, has performed well – there is weakness in the French and Italian economic performance which will drag on the bloc's performance as a whole. Inflation is also on an upward trajectory although unemployment numbers have improved.*

## **US Data**

*The US job market shone once again in January, and 227,000 jobs were added. Unemployment remains at a low 4.8% but inflation has picked up to 2.5% and the FOMC is expected to move short-term rates up in March to the 0.75% - 1% range.*

*Policy announcements from the Trump administration are likely to continue to impact on the market's expectations, but with the Dow Jones already showing at over 21,000 there appears to be a high degree of confidence that the US economy is likely to perform well, at least in the near-term.*

## **5. Net Borrowing**

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

Council approved a revised TMS on 28<sup>th</sup> September to increase *borrowing limits* to enable the borrowing to support the Dover Leisure Centre project to be undertaken, and a further update on 30<sup>th</sup> November to approve a further increase in *borrowing limits* to fund the separate Property Investment Strategy, which itself was approved at the 30<sup>th</sup> November meeting. Details of any specific borrowing will be advised to Members as part of the quarterly update reports when it is undertaken. None was undertaken in the quarter to December 2016 and none is expected in the final quarter of 2016/17. However, it is likely that borrowing *will* be undertaken in 2017/18, dependent on timing of projects and progress under the property investment strategy.

## **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 treasury limits and Prudential Indicators and in compliance with the Council's Treasury Management Practices.

## **Appendices**

Appendix 1 – Capita treasury management report for quarter three

Appendix 2 – Investment portfolio as at 31 December 2016

Appendix 3 – Borrowing portfolio as at 31 December 2016

Appendix 4 – Investment portfolio as at 28 February 2017

## **Background Papers**

Medium Term Financial Plan 2016/17 – 2019/20

**Contact Officer: Stuart Groom, extension 2072**

Date: 3<sup>rd</sup> March 2017

# Treasury Management Update

## Quarter Ended 31 December 2016

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 rate in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth has been fairly robust at +0.6% q/q, +2.2% y/y in quarter 3 of 2016 to confound the pessimistic forecasts by the Bank of England in August and by other forecasters, which expected to see near zero growth during 2016 after the referendum. Prior to the referendum, the UK economy had been facing headwinds for exporters from the appreciation of sterling against the Euro plus weak growth in the EU, China and emerging markets, and the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, there was then a sharp recovery in confidence and business surveys and the fall in the value of sterling has had a positive effect in boosting manufacturing in the UK due to improved competitiveness in world markets.

The Bank of England meeting on 4<sup>th</sup> August addressed its forecast of a slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report cut the forecast for growth in 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. While the MPC was prepared to cut Bank Rate again by the end of 2016, Carney also warned that the Bank could not do all the heavy lifting and suggested that the Government would need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on November 23 and which he duly delivered.

The robust growth in quarter 3 of +0.6%, plus forward indicating business surveys also being very positive on growth, caused the MPC in November to pull back from another cut in Bank Rate. The November Inflation Report also included a forecast for inflation to rise to around 2.7% in 2018 and 2019, well above its 2% target, due to a sharp rise in the cost of imports as a result of the sharp fall in the value of sterling after the referendum. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Growth in quarter 1 of 2016 of +0.8% on an annualised basis, and quarter 2 at +1.4%, was disappointing. However, quarter 3 came in very strongly at +3.5% and forward indicators are pointing towards robust growth in 2017, especially if Trump's expansionary plans are put into effect.

The Fed embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, caused a delay in the timing of the second increase of +0.25% until this December's meeting. Three or four further increases are now expected in both 2017 and 2018.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December 2015 and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March 2006 meeting, it also increased its monthly asset purchases to €80bn. In December 2016, it extended its QE programme; monthly purchases at €80bn will continue to March 2017 and then continue at €60bn until December 2017. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 3 2016 (1.7% y/y) but forward surveys are, at last, positive about a modest upturn to growth while inflation has also started to increase significantly. There have been many comments from forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Japan has struggled for many years to boost anaemic growth despite massive fiscal and monetary stimulus, but quarter 3 came in at +2.7% y/y. Chinese economic growth has been weakening and medium term risks have been increasing.

## 2. Interest Rate Forecast

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

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
<b>Bank rate</b>	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
<b>5yr PWLB rate</b>	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
<b>10yr PWLB rate</b>	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
<b>25yr PWLB rate</b>	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
<b>50yr PWLB rate</b>	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%

The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling after early August. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for

withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

### 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2016/17, which includes the Annual Investment Strategy, was approved by the Council on 02/03/2016. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

*Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2016.*

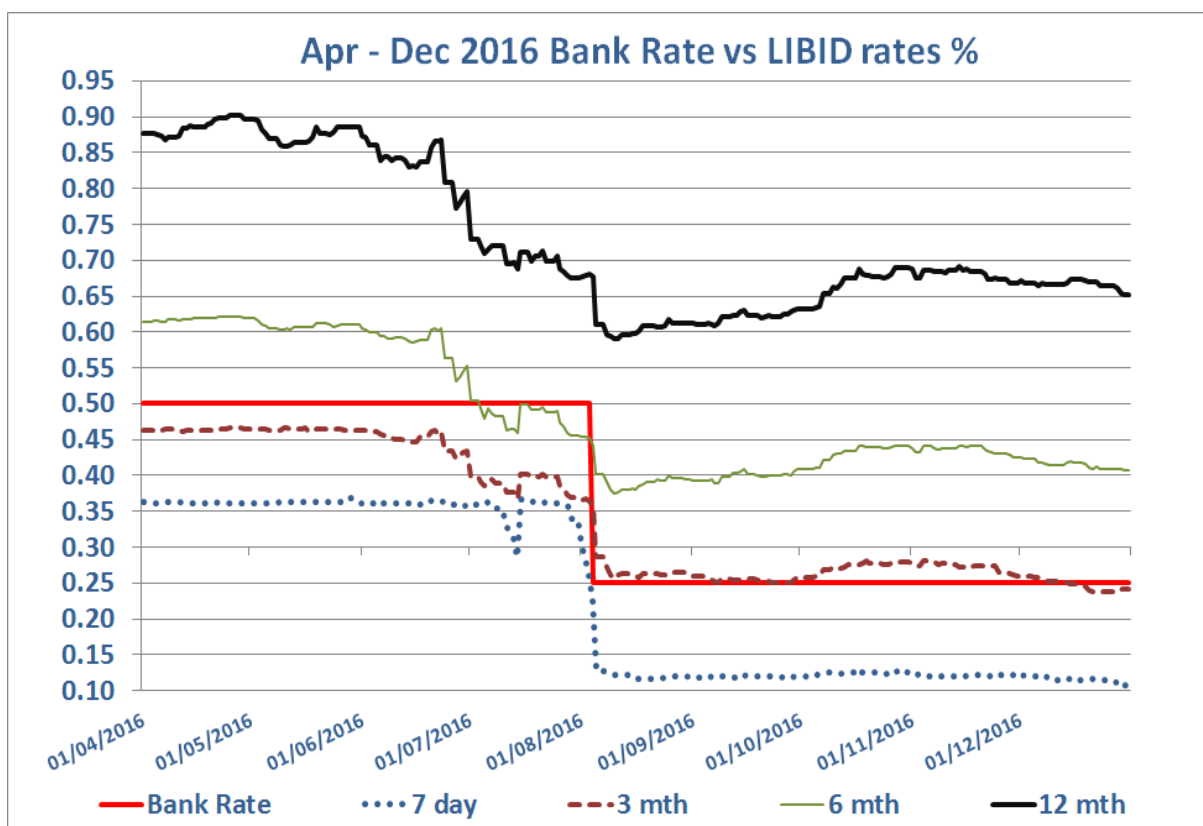
The average level of funds available for investment purposes during the quarter was **£48.7m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£52.7m** core cash balances for investment purposes at 31 December 2016 (i.e. funds typically available for more than one year), although some of this may be shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2016/17 and 2017/18 on the new Dover leisure centre and town hall refurbishment (subject to project approvals).

#### Investment performance for the financial year to date as at 31st December 2016

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.23%	0.57%	£259k YTD

As illustrated, the Council outperformed the benchmark by 34 **bps**. The Council's budgeted investment return for 2016/17 is **£329k**, and performance for the year is estimated to be **£341k**, which is **£12k** above budget.





## 4. New Borrowing

There has been major volatility in PWLB rates during the current year with rates falling to historically very low levels during quarter 2 before rising significantly during quarter 3.

During the year to date ended 31 December 2016, the 50 year PWLB target (certainty) rate for new long term borrowing started at 3.0%, fell to a low of 2.10% in August, and then rose to 2.70% in November.

No borrowing was undertaken during the quarter.

### PWLB certainty rates for the financial year to date as at 31 December 2016

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.96%	1.36%	1.97%	2.71%	2.48%

**Borrowing in advance of need**

This Council has not borrowed in advance of need during the quarter ended 31 December 2016.

## 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 in after point (7) below.

## 7. Other

**Treasury Management Strategy (TMS)**

An update of the TMS was approved at Council on 30th November to increase borrowing limits for the purpose of property investment.

**Changes in credit rating methodology.**

The recent post referendum changes in the UK sovereign rating (downgraded from 'AA+' to 'AA' by Fitch) have no direct impact on the Council's ability to invest as it has excluded the UK from its sovereign rating criteria overlay.

## Prudential and Treasury Indicators as at 31 December 2016

Treasury Indicators	2016/17 Budget £'000	Quarter 3 (Oct-Dec) Actual £'000
Authorised limit for external debt <sup>1</sup>	113,500	338,500
Operational boundary for external debt <sup>2</sup>	108,000	333,000

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	2,154	2,154
12 months to 2 years	2,223	2,223
2 years to 5 years	7,104	7,104
5 years to 10 years	13,442	13,442
10 years and above	62,745	62,745

Prudential Indicators	2016/17 Budget £'000	Quarter 3 (Oct-Dec) Actual £'000
Capital expenditure	13,765	4,358
Capital Financing Requirement (CFR)	87,964	89,008

<sup>1</sup> Approval was given to increase the **authorised limit** to £338,500 in a further revision to the TMS at Council on 30<sup>th</sup> November 2016, to fund the new 'Property Investment Strategy' which was itself approved at the same meeting.

<sup>2</sup> Approval was given to increase the **operational boundary for external debt** to £333,000 in the revised TMS at Council on 30<sup>th</sup> November, for the same reason.

**In-house as at 31/12/16**

**APPENDIX 2**

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
<b>Held in Custody at Kings and Shaxon</b>								
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		
						<b>1,910,000</b>		
<b><u>In-house Investments - Portfolio:</u></b>								
								<b>Duration</b>
Nationwide	Fixed term deposit	A/F1/5	04/07/2016	04/01/2017	0.550	1,000,000	UK - Gov 'AA'	184 days
Lloyds	Fixed term deposit	A+/F1/5	29/07/2016	30/01/2017	0.800	2,000,000	UK - Gov 'AA'	185 days
Nationwide	Fixed term deposit	A/F1/5	01/08/2016	01/02/2017	0.470	3,000,000	UK - Gov 'AA'	184 days
Nationwide	Fixed term deposit	A/F1/5	24/08/2016	24/02/2017	0.400	3,000,000	UK - Gov 'AA'	184 days
Barclays	Fixed term deposit	A/F1/5	04/10/2016	05/04/2017	0.451	8,000,000	UK - Gov 'AA'	183 days
Leeds BS	Fixed term deposit	A-/F1/5	06/10/2016	06/04/2017	0.460	5,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	11/11/2016	11/05/2017	0.600	1,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	19/12/2016	20/06/2017	0.600	3,000,000	UK - Gov 'AA'	183 days
Bank of Scotland	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	7,400,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	2,000,000	UK - Gov 'AA'	182 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.390	7,511,138	UK - Gov 'AA'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.650	7,851,384	UK - Gov 'AA'	95 days notice required to withdraw funds

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**50,762,522**

**Total Portfolio**

**52,672,522**

**Cashflow:**

**Call Accounts/MMF (as at 31/12/16)**

**Rate**

Global Treasury Fund (Goldman Sachs Money Market Fund)	550,106	0.23%
Standard Life Investments (Money Market Fund)	5,000,000	0.29%
Natwest SIBA	8,549,389	0.01%
Natwest SIBA - SEEDA (DTIZ)	56,095	0.01%
Natwest SIBA - EP (HCA)	47,778	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland (BOS)	3,603	0.15%
HSBC Business Acc	0	0.00%
Barclays	16,044	0.00%

**Total Cash flow**

**14,223,517**

**Total Portfolio and Cashflow**

**66,896,039**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-16	Interest Rate %	Principal To Be Repaid 2016/17	Annual Interest 2016/17	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	468	2.50	44.64	13	PWLB	Equal Instalment of Principal (EIP)
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	87	2.50	8.40	2	PWLB	Equal Instalment of Principal (EIP)
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	N/A	3,000,000	4.75		142,500	KA Finanz AG Bank	Repayable if called by Bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	82,754,565	3.18	2,086,670.69	2,615,137	PWLB	Annuity
Fixed	01/05/2012	01/11/2027	MAY-NOV		95,806	0.00	8,709.60	0	Lawn Tennis Association	Interest free
					<b>89,850,927</b>		<b>2,095,433</b>	<b>3,020,152</b>		

HRA Financing

**In-house as at 28/02/17**

**APPENDIX 4**

Organisation	Type of investment	Current rating	Issue Date	Maturity date	Market yield %	Book cost	Government Sovereign Debt rating	Options available
<b>Held in Custody at Kings and Shaxon</b>								
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		
						<b>1,910,000</b>		
<b><u>In-house Investments - Portfolio:</u></b>								<b>Duration</b>
Barclays	Fixed term deposit	A/F1/5	04/10/2016	05/04/2017	0.451	8,000,000	UK - Gov 'AA'	183 days
Leeds BS	Fixed term deposit	A-/F1/5	06/10/2016	06/04/2017	0.460	5,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	11/11/2016	11/05/2017	0.600	1,000,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	19/12/2016	20/06/2017	0.600	3,000,000	UK - Gov 'AA'	183 days
Bank of Scotland	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	7,400,000	UK - Gov 'AA'	182 days
Lloyds	Fixed term deposit	A+/F1/5	28/12/2016	28/06/2017	0.600	2,000,000	UK - Gov 'AA'	182 days
Nationwide	Fixed term deposit	A/F1/5	04/01/2017	04/07/2017	0.420	1,000,000	UK - Gov 'AA'	184 days
Lloyds	Fixed term deposit	A+/F1/5	30/01/2017	31/07/2017	0.600	2,000,000	UK - Gov 'AA'	185 days
Nationwide	Fixed term deposit	A/F1/5	01/02/2017	01/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Nationwide	Fixed term deposit	A/F1/5	24/02/2017	24/08/2017	0.370	3,000,000	UK - Gov 'AA'	184 days
Eastleigh Borough Council	Fixed term deposit	A+/F1/5	24/02/2017	24/08/2017	0.430	3,000,000	UK - Gov 'AA'	182 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.390	7,511,138	UK - Gov 'AA'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.650	7,864,254	UK - Gov 'AA'	95 days notice required to withdraw funds

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**53,775,392**

**Total Portfolio**

**55,685,392**

**Cashflow:**

**Call Accounts/MMF (as at 28/02/17)**

**Rate**

Global Treasury Fund (Goldman Sachs Money Market Fund)	527,106	0.23%
Standard Life Investments (Money Market Fund)	4,000,000	0.29%
Natwest SIBA	1,272,428	0.01%
Natwest SIBA - SEEDA (DTIZ)	56,096	0.01%
Natwest SIBA - EP (HCA)	47,779	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.05%
Bank of Scotland (BOS)	37,333	0.15%
HSBC Business Acc	0	0.00%
Barclays	16,054	0.00%

**Total Cash flow**

**5,957,298**

**Total Portfolio and Cashflow**

**61,642,690**



# The Audit Plan for Dover District Council

**Year ended 31 March 2017**

6 April 2017

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Dear Members of the Governance Committee

## **Audit Plan for Dover District Council for the year ending 31 March 2017**

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 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 which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Elizabeth Jackson  
Engagement Lead

#### **Chartered Accountants**

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# Understanding your business and key developments

## Developments

### East Kent Councils

Four East Kent Councils, including Dover, are considering proposals to merge into a 'super District' to pool resources to enhance the quality, consistency and value for money of services, and to enhance the economic competitiveness of East Kent with a shared focus on jobs and housing.

If approved, the merger would result in the abolition of the existing local government district areas and the creation of a new single East Kent council, which would be the largest of its kind in the country.

### Volatility in funding streams

As the Director of Finance, Housing & Community in the Executive Summary of the Council's 2017/18 budget, current funding streams are volatile, difficult to predict and generally outside of the Council's control, with the exception of Council Tax.

The business rates revaluation has created many winner and losers and it is anticipated that up to 50% of businesses may appeal. The New Homes Bonus is being top-sliced to fund social care, and while Revenue Support Grant is currently guaranteed for 4 years, the Government retains discretion to make adjustments for 'unexpected' events.

## Key challenges

### Regeneration

One of the Council's key objectives is to maintain a thriving and prosperous economy within the district. To achieve this, the Council aims to deliver regeneration whilst ensuring its own financial sustainability. The reduction and eventual withdrawal of the Revenue Support Grant (RSG) will make this increasingly challenging.

Alternative methods are needed, and the Council is currently considering undertaking Property Investment activities to deliver economic regeneration and a viable and sustainable replacement to RSG through additional returns and income streams for the Council.

This is likely to involve significant external borrowing and will require strong governance arrangements to ensure risks are well managed and objectives delivered.

## Key performance indicators

Measure	Value	Trend
General Fund [Q2]	£12k surplus	↑
HRA [Q2]	£837k surplus	↑
Capital Programme [Q2]	£15.1m plan	↔

## Financial reporting changes

### CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

### Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

### Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

## Our response

- We will monitor developments in the proposed merger of the East Kent councils, and the Council's proposed Property Investment Strategy, and your progress in implementing the Apprentice Levy as part of our work on the value for money conclusion.
- We aim to complete all our substantive audit work of your financial statements by 31 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code and whether your Annual Governance Statement complies with the updated CIPFA guidance.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

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## 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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,552k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be deemed 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 deemed 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 deemed trivial to be £78k.

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 not identified any items where we consider separate materiality levels to be appropriate.

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

## Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<b>The revenue cycle includes fraudulent transactions</b>	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Dover District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Dover District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> We therefore do not consider this to be a significant risk for Dover District Council.
<b>Management over-ride of controls</b>	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work completed to date:</b> <ul style="list-style-type: none"> <li>• Review of journal entry process.</li> </ul> <b>Further work planned:</b> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Further selection of unusual journal entries for testing back to supporting documentation to ensure coverage of the full financial year</li> <li>• Review of unusual significant transactions.</li> </ul>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

## Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<b>Valuation of property, plant and equipment</b>	<p>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>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• A walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Verification of the existence and ownership of material assets and a sample of those remaining.</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review the internal revaluation of any Council owned assets and challenge the assumptions made in arriving at the valuation.</li> <li>• Testing of the significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• 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.</li> </ul>

## Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Detailed substantive testing will be performed over the operating expenditure incurred by the Council, during the year, including payments made post-period end</li> <li>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.</li> <li>Testing will also be performed on the Creditors included within the Accounts at year end to ensure that these amounts are valid</li> </ul>
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

## Other risks identified (continued)

Reasonably possible risks	Description	Audit approach
Property, plant and equipment	Property, plant and equipment activity not valid	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>A walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test of significant movements in the year such as additions, depreciation, transfers and disposals to ensure that these amounts are valid.</li> <li>Verification of the existence and ownership of material assets and a sample of those remaining.</li> </ul>
Pension valuation (IAS 19)	Valuation of the pension fund assets and liabilities have been incorrectly valued	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough of the council's processes and controls over this area to gain an understanding of these.</li> <li>Document our understanding of the qualifications, experience and expertise of the actuary in reaching the valuation of the pension fund's assets and liabilities.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test the completeness and appropriateness of the data sent to the pension fund by the council.</li> <li>Review the assumptions used by the actuary in arriving at their valuation for reasonableness.</li> <li>Test the input of the valuation data from the actuary to the financial statements, and review disclosures of the IAS 19.</li> </ul>
Other risks	Description	Audit approach
CIPFA Code – 'Telling the Story'	New requirements in the CIPFA code require restatement of Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MIRS), plus additional note disclosures	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review restated CIES and MIRS</li> <li>We will ensure all additional note disclosures are included correctly</li> <li>We will carry out a comprehensive review of the draft financial statements for compliance with the CIPFA Code.</li> </ul>

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## Other risks identified (continued)

### Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

### 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 sections but will include:

- Housing benefits
- Depreciation
- 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



# 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 National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The 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 opposite:

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

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## Value for Money (continued)

### **Risk assessment**

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). 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 one significant risk which we are required to communicate to you. This is set out overleaf.

### **Reporting**

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 30 September 2017.

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## Value for money (continued)

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

Significant risk	Relevant sub-criteria	Work proposed to address
<p><b>Medium term financial plan</b> 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.</p>	<p>This relates to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We will review the Council's plans to deliver savings over the course of the medium term financial plan.</p>

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## Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
  - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

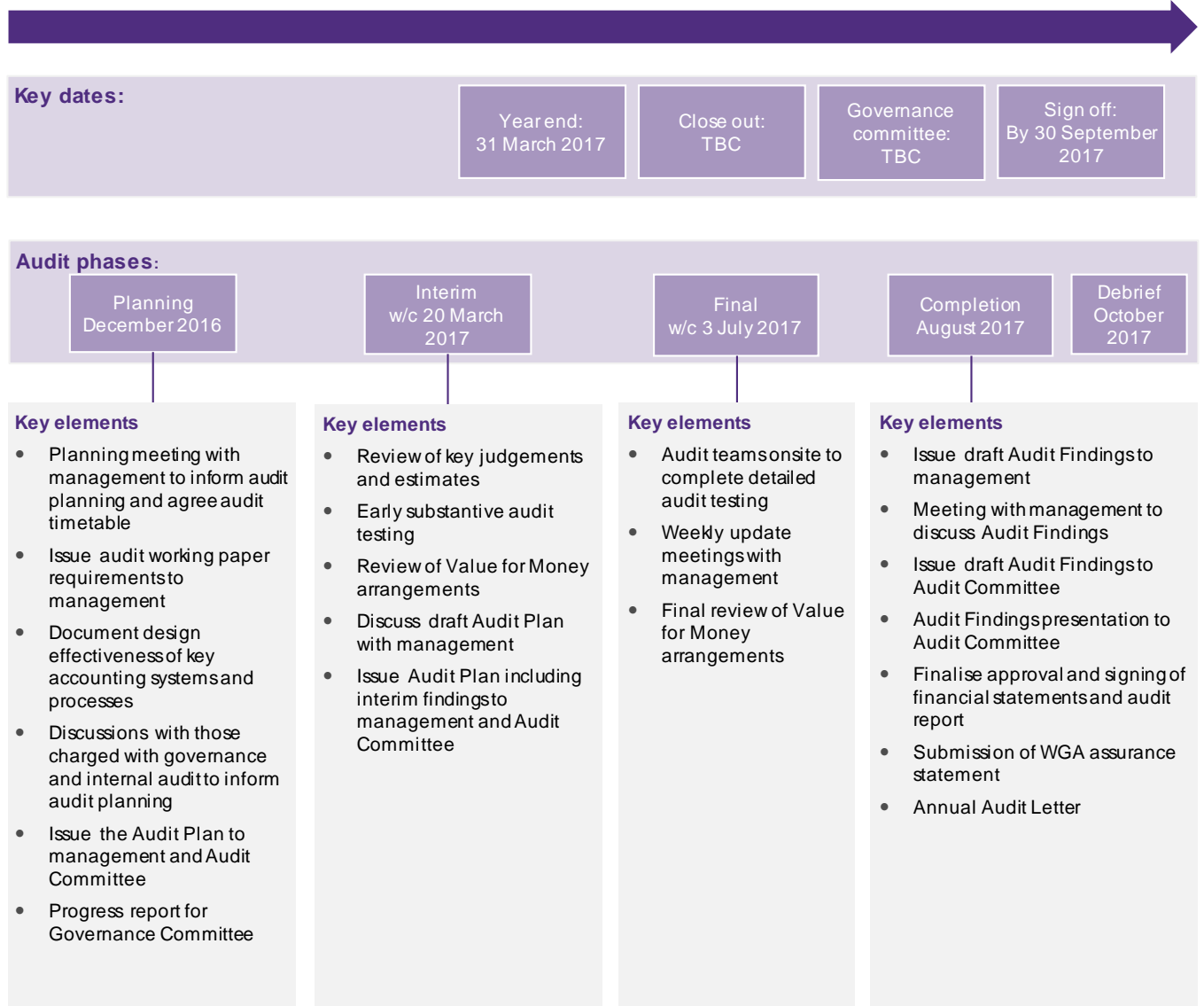
## Results of interim audit work

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
<b>Internal audit</b>	<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>
<b>Entity level controls</b>	<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"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Walkthrough testing</b>	<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>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We have no issues to report to you.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>

# The audit cycle

## The audit timeline



# Audit Fees

## Fees

	£
Council audit	53,685
Grant Certification	
- Housing Benefit	38,224
- Pooling of Housing Capital Receipts	1,500
<b>Total audit fees (excluding VAT)</b>	<b>93.409</b>

## 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'.
- The HB scale fee for 2016/17 is set by PSAA Ltd. The fee is set on a rolling two-year fee pattern and is based on the level of testing and error rate identified in 2014/15 HB claim.

## Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

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## Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. 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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Dover District Council. The following audit related and non-audit services were identified for the Council for 2016/17:

### Fees for other services

Service	Fees £	Planned outputs
<b>Audit related</b>		
Housing Benefit Subsidy Return - certification	38,224	Certified claim and report to DWP (if required)
Pooling of Housing Capital Receipts Return - certification	1,500	Certified claim and report to DCLG (if required)
<b>Non-audit related</b>		
None	-	-

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.



## Communication of audit matters with those charged with governance

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

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

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

### Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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.psa.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 CCG's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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	✓	✓



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**Subject:** THE STANDARDS COMMITTEE

**Meeting and Date:** Governance Committee – 6 April 2017  
Council – 17 May 2017

**Report of:** David Randall, Director of Governance

**Classification:** Unrestricted

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**Purpose of the report:** To propose that the Council no longer appoints a separate Standards Committee

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**Recommendation:** Governance Committee recommends to Council that:

1. That, as from the 2017 Annual Meeting of the Council, the Council no longer appoints a separate Standards Committee.
  2. That, with effect from the 2017 Annual Meeting of the Council, the functions of the Standards Committee are transferred to the Governance Committee and the revised functions as described at Appendix 1 are adopted and incorporated into the Council's Constitution.
  3. That, with effect from the 2017 Annual Meeting of the Council, the membership of the Governance Committee is increased from 6 to 7 members.
  4. That the Director of Governance is authorised to make consequential textual changes to the Council's Constitution to remove references to the Standards Committee and where appropriate replace with reference to the Governance Committee.
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## 1. Summary

- 1.1 Under the provisions of the Localism Act 2011, from 1 July 2012, the Council adopted a new Kent Model Code of Conduct for members and put in place arrangements for investigating allegations of failure to comply with the Code and for making decisions in respect of those allegations.
- 1.2 The key features of the new arrangements were that the concept of a statutory standards committee no longer existed, the role of independent members and parish-appointed members no longer existed and most of the responsibilities in managing the new arrangements were vested with the Monitoring Officer.
- 1.3 Since 2012, the Standards Committee has continued as an ordinary local authority committee subject to all of the usual procedural rules, including a requirement for it to be politically balanced. However, apart from at the outset when there were occasional papers considered as the new Kent Model Code of Conduct for Members was bedded in, there has been an increasing dearth of business relating to the Code of Conduct and its associated arrangements.

- 1.4 Since 2012, the only business routinely transacted at the committee relates to the corporate service complaints report. In the 5 years since the introduction of the new arrangements, there were 18 scheduled meetings of the committee. It has met on only 12 occasions, cancelling 6 of the meetings, due to the lack of business. Of the meetings held, the average length of a Standards Committee meeting has reduced year on year from nearly an hour in 2012/13 to under 15 minutes in 2016/17.
- 1.5 This report proposes that the Standards Committee is not reappointed at the Annual Meeting of the Council in May 2017 and that its functions relating to corporate service complaints and member conduct are transferred to the Governance Committee. It is also proposed that the Governance Committee membership is increased by one to seven members. This will provide slightly more resilience if a member Hearing Panel needs to be constituted.

## 2. Background

### Local Government Act 2000 and Localism Act 2011

- 2.1 The Local Government Act 2000 at para. 53 required that a relevant authority must establish a Standards Committee with the functions conferred on it. The definition of a relevant authority included a district council and as a result this Council established its Standards Committee. However, this requirement was modified by the Localism Act 2011 at para. 49. The 2011 Act changed the definition of a relevant authority, and as a result, a district council ceased to be a relevant authority from 1 July 2012. The implication of this change was that a district council ceased to be required to establish a Standards Committee.
- 2.2 However, from 1 July 2012, this Council retained the Standards Committee as an ordinary local authority committee subject to all of the usual procedural rules including a requirement for it to be politically balanced. This meant that we no longer had Independent Members of the Committee, including no longer having an Independent Chairman of the committee and the initial assessment of allegations of member breaches of the code of conduct were no longer considered by sub committees of the Standards Committee. As a result, the functions of the committee were considerably diminished by legislation and gradually over the years, there has been a decline in the residual business relating to the Code of Conduct and its associated arrangements.

## 3. Performance/Business Issues

- 3.1 Since 2012, most of the arrangements relating to the new Code of Conduct – the Kent Model Code - have been vested with the Monitoring Officer. The only business routinely transacted at the committee relates to the corporate service complaints report. The table below details the performance and business of the Standards Committee in the 5 years since the introduction of the new arrangements.

Council Year	Meeting Date	Meeting Time	Total	Average
12/13	29/10/12	1 hour	2 hrs 57mins	59 mins
	23/1/13	1 hr 16 mins		
	13/3/13	41mins		
13/14	25/9/13	38 mins	1 hr 32 mins	46 mins
	4/12/13	54mins		

Council Year	Meeting Date	Meeting Time	Total	Average
14/15	25/6/14	30 mins	1 hr 9 mins	23 mins
	17/12/14	34 mins		
	25/3/15	5 mins		
15/16	15/7/15	26 mins	43 mins	21.5 mins
	13/1/16	17 mins		
16/17	6/7/16	12 mins	29 mins	14.5 mins
	11/1/17	17 mins		
<b>Total</b>	<b>12 meetings</b>	<b>6 hrs 50 mins</b>	<b>6 hrs 50 mins</b>	<b>34.17 mins</b>

3.2 Of the 18 scheduled meetings of the committee, 6 were cancelled due to lack of business resulting in the committee meeting on 12 occasions.

#### 4. Governance Committee

4.1 There is synergy in moving the residual functions of the Standards Committee to the Governance Committee. This Council receives a relatively few number of formal service complaints. A number of these complaints relate to dissatisfaction with a decision legitimately taken by officers of the Council, whilst some are just genuine mistakes, human error rather than a breakdown in any procedures or processes.

4.2 However, some complaints identify service failures or weaknesses. The Council in addition to addressing the wrong that the complainant has suffered wishes to learn from the failure or mistake. This requires a review of the procedures, to identify what can be done differently and how can the mistake be avoided in the future. It is consistent with the work of the Governance Committee, as one of its key functions is to ensure that the Council retains effective internal control arrangements and consider the Council's Annual Governance Assurance Statement. A failure or mistake resulting in a service complaint may be due to a control weakness in the procedures and the Governance Committee would seek assurances that the weakness has been addressed.

4.3 Therefore it would be sensible for the Council's Corporate Complaints Officer to report on service failures or weaknesses to the Governance Committee. In addition the committee would receive the Annual Report of the Local Government Ombudsman, reporting on any complaints referred by a complainant. Together, this strengthens and brings together the reporting of the Council's internal control environment under the Governance Committee.

4.4 Most of the initial stages associated with the arrangements for considering complaints under the Kent Code of Conduct for Members are vested in the Monitoring Officer. However, although infrequent, S33(2) of the Localism Act 2011 and paragraph 8 of the adopted Code of Conduct requires that certain dispensation requests must be considered by the relevant member committee and any changes to the Kent Code would be considered by the committee. In addition, if the Monitoring Officer decides that after he has investigated that a Member breach of the Code of Conduct requires consideration by a Hearing Panel, this must be formed from the relevant member committee. To provide context, there has only been one such case in the last five years. However, to provide a slightly larger pool to choose from and to provide resilience, it is suggested that the membership of the Governance Committee is increased from six to seven, which will be subject to the normal political balance rules.

5. **Options for Consideration**

5.1 Option 1. Not to reappoint the Standards Committee and transfer its functions to the Governance Committee, increase the Governance Committee's membership by one and amend the Governance Committee's functions and responsibilities.

5.2 Option 2. To retain the Standards Committee and retain its functions and responsibilities.

6. **Preferred Option**

6.1 For the reasons outlined in this report, option 1 is the recommended approach.

7. **Resource Implications**

7.1 Potentially there would be a small saving of the cost of the allowances paid to the Chairman and Vice Chairman of the Standards Committee. Currently these are not paid as the current incumbents receive an allowance for their role on another committee.

8. **Corporate Implications**

8.1 Comment from the Section 151 Officer:

8.2 Comment from the Solicitor to the Council:

8.3 Comment from the Equalities Officer:

8.4 Other Officers (as appropriate):

9. **Appendices**

Revised functions and responsibilities of the Governance Committee

10. **Background Papers**

Report of the Director of Governance to Council on 25 June 2012.

Contact Officer: David Randall, Director of Governance

## **Revised functions and responsibilities of the Governance Committee**

### **Decision Making Body: Governance Committee**

**Membership:** 7 Members of the Authority.

**Functions:**

1. To ensure effective internal audit and internal control arrangements.
2. To receive the Internal Audit Annual Programme of work.
3. To receive audit activity reports and the assurances contained therein relating to the level of internal control and risk management across the Council and monitor the implementation of audit recommendations agreed by management.
4. To consider external audit reports and make recommendations to the Council.
5. To ensure the effectiveness of the Council's risk management arrangements and seek assurances that effective action is being taken on risk and internal control related areas of weakness.
6. To receive the Annual Governance Assurance Statement and to monitor the implementation of the action plan.
7. To approve the Council's Statement of Accounts, as required by prevailing legislation, and the Financial Outturn Report.
8. Monitor and review the Constitution and make recommendations to the Council.
9. To discharge the functions of the Council relating to Standards contained in Part 1, Chapter 7 of the Localism Act 2011 (other than those which are reserved to Council by law).
10. To promote and maintain high standards of conduct by Members and Co-opted Members of the District Council and to make recommendations to Council on improving standards.
11. To manage the arrangements for Code of Conduct complaints, to monitor and assess the operation and effectiveness of the Code of Conduct and make recommendations to the District Council on the adoption of or revisions to its Code of Conduct.
12. To advise on local ethical governance protocols and procedures and act as an advisory body in respect of any ethical governance matter.
13. To appoint a Hearing Panel to deal with Code of Conduct complaints following investigation.
14. To grant dispensations pursuant to S33(2) of the Localism Act 2011 and paragraph 8 of the adopted Code of Conduct where:

- a. without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter.
  - b. that the authority considers that the dispensation is in the interests of persons living in its area; or
  - c. where the Committee considers that it is otherwise appropriate to grant a dispensation.
15. To monitor complaints handling and Ombudsman investigations and to make payments or provide other benefits in cases of maladministration arising from non-executive functions.
16. To deal with any alleged breaches by councillors of local protocols adopted by the Council including the Protocol for Good Practice in Planning Procedure and the Protocol for Officers and Members for Dealing with Conflicts of Interest of Councillors in Professional Practice.