

# Public Document Pack



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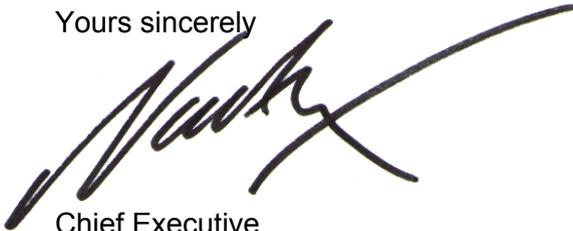
28 February 2018

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 8 March 2018 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



Chief Executive

## Governance Committee Membership:

P G Heath (Chairman)  
D Hannent (Vice-Chairman)  
B W Butcher  
P I Carter  
M I Cosin  
M R Eddy  
S J Jones

## 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 - 7)

To confirm the attached Minutes of the meeting of the Committee held on 7 December 2017.

5 **QUARTERLY INTERNAL AUDIT UPDATE REPORT** (Pages 8 - 29)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

6 **DRAFT INTERNAL AUDIT PLAN 2018-19** (Pages 30 - 37)

To consider the attached report of the Head of Audit Partnership (East Kent Audit Partnership).

7 **TREASURY MANAGEMENT QUARTER THREE REPORT 2017/18** (Pages 38 - 54)

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

8 **ANNUAL GOVERNANCE ASSURANCE STATEMENT** (Pages 55 - 58)

To consider the attached report of the Director of Governance.

9 **EXTERNAL AUDIT PLAN** (Pages 59 - 74)

To consider the attached report of Grant Thornton (External Auditors).

10 **ANNUAL COMPLAINTS REPORT** (Pages 75 - 77)

To consider the attached report of the Director of Governance.

11 **REVIEW OF THE CONSTITUTION - GENERAL REVISIONS**

To consider the report of the Director of Governance (to follow).

12 **REVIEW OF THE CONSTITUTION 2018 - TRAINING AND DEVELOPMENT FOR MEMBERS** (Pages 78 - 82)

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 Services 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, 7 December 2017 at 6.00 pm.

Present:

Chairman: Councillor P G Heath

Councillors: B W Butcher  
P I Carter  
M I Cosin  
M R Eddy  
D Hannent  
S J Jones

Officers: Director of Governance  
Head of Finance  
Head of Audit Partnership (East Kent Audit Partnership)  
Deputy Head of Audit Partnership (East Kent Audit Partnership)  
Democratic Services Officer

23 APOLOGIES

There were no apologies for absence received from Members.

24 APPOINTMENT OF SUBSTITUTE MEMBERS

There were no substitute Members appointed.

25 DECLARATIONS OF INTEREST

There were no declarations of interest made by Members.

26 MINUTES

The Minutes of the meeting of the Committee held on 28 September 2017 were approved as a correct record and signed by the Chairman.

27 QUARTERLY INTERNAL AUDIT UPDATE REPORT

The Deputy Head of Audit Partnership (East Kent Audit Partnership) introduced the Quarterly Internal Update report. There had been eight internal audit reports undertaken during the period of which two achieved Substantial assurance, four achieved Reasonable assurance and two received a split assurance level of Reasonable/Limited. Four follow up reviews were completed with no concerns to highlight to Members.

The Head of Audit Partnership provided an update to the internal audit performance up to November 2017 which was now 57% complete and approximately 10% behind due to long term sickness within the team for which days would be bought to make up for the shortfall.

Members discussed their concerns of the split assurance opinion achieved for Inward Investment and in particular the controls that were missing which gave rise to the Limited Assurance. It was an important role within the Council and was controlled and delivered by a single officer and given that it was one of the Council's most important activities, Members raised concerns about resilience and succession planning for the role and the Council's workforce as a whole.

- RESOLVED: (a) That it be recommended to Cabinet that an updated Workforce Strategy be developed for 2018, which is then considered by Cabinet. This should include:
- (i) Workforce analysis detailing the current age profile of the staff;
  - (ii) Workforce management including succession planning and recruitment strategies;
  - (iii) Staff development, including talent management, and bespoke and corporate training;
  - (iv) Career grades, apprenticeships and graduate placements.
- (b) That after the strategy has been received and considered by Cabinet, it is referred back to the Governance Committee. This is to enable it to fulfil its assurance role, which is to ensure that effective action is being taken to mitigate risk and maintain effective internal control.

## 28 TREASURY MANAGEMENT QUARTER TWO REPORT 2017/18

The Head of Finance presented the Treasury Management Quarter Two Report 2017/18.

The Council had remained within its Treasury Management and Prudential Code guidelines during the period. The investment return for the six month period to September was 0.53% which outperformed the benchmark by 0.32%. The Council's projected investment return for 2017/18 was £398k. The original budget estimate was £305k and the improvement was due to the estimated dividend from new investments in the CCLA Property Fund.

RESOLVED: That the Treasury Management Quarter Two Report 2017/18 be noted.

## 29 ANNUAL AUDIT LETTER

The Committee was asked to consider the Annual Audit Letter which summarised the key findings arising from the work Grant Thornton (External Audit) had carried out a Dover District Council for the year ended 31 March 2017. The summary was provided by the Head of Finance in the absence of Grant Thornton.

RESOLVED: That the Annual Audit Letter be noted.

The meeting ended at 6.45 pm.

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**Subject:** QUARTERLY INTERNAL AUDIT UPDATE REPORT

**Meeting and Date:** Governance Committee – 8<sup>th</sup> March 2018

**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 2017

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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 Committee meeting.

**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 six internal audit assignments completed during the period, of which two concluded Substantial assurance, two concluded Reasonable assurance, and one concluded Limited assurance. There was one other piece of work for which an assurance level is not applicable as it comprised quarterly housing benefit testing.
- 2.8 In addition two follow-up reviews have been completed during the period, which is detailed in section 3 of the quarterly update report.
- 2.9 For the nine-month period to 31<sup>st</sup> December 2017, 192.36 chargeable days were delivered against the planned target of 260.95, which equates to 74% 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 2017-18 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 2017-18 - Previously presented to and approved at the 6<sup>th</sup> April 2017 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 2017.

**2. SUMMARY OF REPORTS:**

Service / Topic		Assurance level	No. of Recs.	
2.1	CCTV	Substantial	C H M L	0 0 2 1
2.2	Scheme of Officer Delegations	Substantial	C H M L	0 0 0 3
2.3	Officers' Code of Conduct & Gifts & Hospitality	Reasonable	C H M L	0 0 3 2
2.4	Local Code of Corporate Governance	Reasonable	C H M L	0 2 1 0
2.5	East Kent Housing – Fire Risk Assessment Processes and Records Management*	Limited	C H M L	0 2 2 0
2.6	EK Services – Housing Benefit Quarterly Testing (Quarter 2 of 2017-18)	Not Applicable		

\* Reasonable Assurance after follow-up – please see section 3

**2.1 CCTV – Substantial Assurance**

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the CCTV operation is undertaken in accordance

with the Code of Practice and all prevailing legislation such as the Data Protection Act and the Human Rights Act.

### 2.1.2 Summary of Findings

CCTV remains a powerful weapon in the continuing fight against crime, particularly when integrated with other crime reduction methods. The CCTV system operated by Dover District Council comprises of 23 cameras in Dover, 16 in Deal and 9 in Sandwich.

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

- A recent inspection carried out by NSI on behalf of the Surveillance Camera Commissioner has found that Dover District Council is compliant with the 12 principles in the Surveillance Camera Code of Practice.
- Established working processes are in place that are supported by recently reviewed and updated documentation. This includes the CCTV Code of Practice that has been signed by Kent Police to confirm their approval to it.

Scope for improvement was however identified in the following areas:

- Following the NSI inspection on the CCTV function one recommendation has been made and that is that the Chief Executive, Director of Finance, Housing and Community and the Head of Community Services need to obtain SIA licenses for the commercial use of the CCTV non council sites and until they have completed the appropriate training the authority cannot be granted its certificate for commercial use of its cameras and the inspection report cannot be finalised.
- There needs to be a strategic approach to identify possible future CCTV cameras that may be required as S106 monies may become available that could fund the installation costs.
- The CCTV cameras located around the outside of the council offices are not connected to the CCTV control room. Consideration could be given to giving the operation of running these (including maintenance and day to day monitoring) to CCTV so that all camera security equipment is controlled by one team.
- To assist the CCTV Supervisor in getting missing signage back up on the posts across the district, they may wish to investigate whether this could be carried out by the in-house Multi Skilled Tradesmen thus reducing any time delays.

## **2.2 Scheme of Officer Delegations - Substantial Assurance**

### 2.2.1 Audit Scope

To provide assurance that the approved Scheme of Officer Delegations complies with the law and the Council's own requirements, is adequately advised to Officers and Councillors and that it is being complied with.

### 2.2.2 Summary of Findings

The principal piece of legislation is the local Government Act 2000 which requires the Council to detail those responsibilities placed upon them and who has the authority to act. This is detailed within the Council's Constitution. The Monitoring Officer is responsible for the operation of the Council's Constitution; which includes the Scheme of Delegations.

There is substantial information regarding the Delegation process on the webpages including a simple flow chart with accompanying notes for staff and Members to follow during this process.

Staff are made aware of the Constitution and delegation process during the induction process, staff handbook, one to ones, and training sessions where needed.

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

- There is an up to date policy and procedures;
- Clear instructions exist for staff and members, which are easily accessible; and
- Training needs are being identified and met where possible.

Scope for improvement was however identified in the following areas:

- To conform with the Transparency Code the organisation's structure chart is to be published;
- Webpages and links to external and internal documents are working but not all are up to date; and
- A benchmarking exercise should be undertaken with other local authorities to ensure working practices are current and future proof.

## **2.3 Officers' Code of Conduct & Gifts & Hospitality - Reasonable Assurance**

### 2.3.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the highest standards of officer conduct and probity are maintained.

### 2.3.2 Summary of Findings

The aim of a Code of Conduct is to set guidelines for Council employees which will help maintain and improve standards and protect employees from criticism or misunderstanding; whilst assisting in the protection of the public purse. This Code should provide guidance to assist the Council and its officers in their day to day work and set out the minimum standards of behaviour expected based on the seven principles of public life: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Previous concerns over the processes for the declarations of gifts and hospitality have been addressed and are now generally working well. However, scope for improvement on the declarations of possible conflicts of interest, personal financial and non-financial interests have been identified as a result of this review.

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

- The new Employee Handbook, Code of Conduct for Employees and suite of key associated policies covers the standards of behaviour, impartiality and conflicts of interest.
- The Code of Conduct for Employees has been approved.

- The revised Code and associated policies were launched to staff.
- There is a robust induction process that managers should implement as part of the recruitment process for new employees; if it is followed and documented correctly, this should raise awareness of officers' responsibilities under the Code of Conduct.
- Gifts and hospitality are actively being declared across all Directorates.
- Protocols are in place to ensure the integrity of hiring employees related to existing members of staff.
- A list Politically Restricted Posts is in place in compliance with legislative requirements.

Scope for improvement was however identified in the following areas:

- Very few personal financial or non-financial interests and private or voluntary work have been made in recent years; in fact those declared were only made once the lack of these declarations was highlighted during the review. It seems likely that across all staff there would be more that should be declared and that therefore staff may not fully understand exactly what should be declared in respect of possible conflicts of interest.
- The Code should be regularly brought to the attention of officers to remind them of their responsibilities; to include, examples of possible conflicts of interest and personal financial and non-financial interest.
- There are no processes in place for the regular review of the Declarations Register to ensure that personal interests (when declared) remain valid.

## **2.4 Local Code of Corporate Governance – Reasonable Assurance**

### **2.4.1 Audit Scope**

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

Good governance should enable the Council to pursue its vision effectively as well as underpinning that vision

### **2.4.2 Summary of Findings**

Good governance comprises the systems, processes, cultures and values that Dover District Council follows so that it can pursue its vision and objectives effectively, delivering intended outcomes for its communities, whilst minimising the risks involved. Good Governance runs through every level of the Council, it is owned by all stakeholders, including senior management and members. It forms the essential core values of the Council and should remain embedded in the culture of the Council.

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

- The Corporate Governance Local Code has been reviewed, updated and approved by Members to reflect the revised CIPFA Delivering Good Governance guidance that has been issued.

- The 2016/17 Annual Governance Statement has been approved and signed off by the Leader of the Council and the Chief Executive within the designated timeframe and is available on the Dover District Council website.

Scope for improvement was however identified in the following areas:

- To ensure that all Council policies are kept up to date and can be easily accessed by staff a centrally held policy register should be considered to ensure that policies are being reviewed on a regular basis. This will also ensure that when policies are being quoted as evidence within the Annual Governance Statement, an assurance can be provided that the supporting policies are up to date and are being reviewed on a regular basis to comply with current legislation or best practice.
- There is a need to ensure compliance with the Local Government Transparency Code and that data made available under this code is up to date and is reviewed on a regular basis. Also the Code should be reviewed on a regular basis to ensure any changes in data requirements are being identified and acted on.

## **2.5 Fire Risk Assessment Processes & Records Mgmt. – Limited Assurance:**

### 2.5.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to ensure that the health and safety of tenants is safeguarded from the risk of fire.

### 2.5.2 Summary of Findings

Since the tragic event happened at Grenfell Tower in 2017, fire safety has become a high priority and East Kent Housing has been working to reassure the tenants that they live in a safe and secure environment. In particular work has been carried out on the tower blocks to test the cladding that they are covered in and that the fire risk assessments have been updated for these locations. Cladding has therefore not been looked at in this audit.

Management can place Limited Assurance on the system of internal controls in operation but there are processes now being carried out that are giving a positive direction of travel towards Reasonable Assurance. It should be noted that this review was carried out in September 2017 and a follow up review is to be carried out in January 2018.

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

- Fire risk assessments have not been kept up to date in respect of follow ups based on the suggested dates shown in the original assessments that were carried out in 2014 by an external company. This has meant that outside contractors are now being used with some internal resources to carry out new Type 3 fire risk assessments on all locations with an expected completion date of October 2017 to renew every fire risk assessment for each location whether or not it is in date or out of date.
- There has been no central pulling together of the works that have been carried out across locations to reflect the impact that they have had on the original fire risk assessments.

- There is no central monitoring of the outstanding actions for each location at the time of this audit.
- The new single system is not able to assist in record keeping of fire risk assessments which has meant that a separate software solution is being procured.
- There is a lack of monitoring by senior management either at East Kent Housing or the four partner authorities of the outstanding actions and the expected costs. A regular report should be produced for management that shows all of the actions that have been completed, the ones that are outstanding and also the same for the fire risk assessments. This report should also include the outcomes of equipment testing, issues that have arisen from the testing, what has been tested and what is outstanding.
- The resource required within East Kent Housing to be able to centrally pull together various records to ensure that monitoring is being carried out on fire risk assessments and the associated works may be addressed as part of a forthcoming restructure.

However, positive steps have been taken to address the above issues with the procurement of the new Pyramid system that will create a central database that can provide an ongoing monitoring process and that can also generate reports that can assist in both work that needs to be carried out and providing status reports to management.

All fire risk assessments are in the process of being redone as a Type 3 assessment (previous exercise in 2014 were Type 1 assessments) and from this a list of all the required works and costs will be produced.

Effective control was however evidenced in the following areas:

- Contracts are in place for the fire alarms / detection equipment, emergency lighting and extinguisher system servicing and records are held to confirm that the programme of inspections is being carried out.
- PEEP's are in place for residents where they are needed and they are reviewed on a regular basis and information is being kept in the fire boxes for the appropriate location.
- 100% post inspections of works being carried out that relate to fire safety are now being carried out.

Notwithstanding the findings above, a great deal of work is carried out at each of the four partner councils through a programme of works under Fire Prevention Work budgets. The value of work completed on behalf of each council varies, as does the way the available budget is allocated, however spend on replacement fire doors and other remedial works is well managed. Examples of this are detailed reviews that have been carried out at the tower blocks at Canterbury that have identified works that are needed and are currently being designed and specified. Also works are being carried out on two sheltered schemes in Shepway to address major issues that have been identified. It is the link between these works and the actions identified through the FRA's that should be made clearer and better management information regarding this process produced.

## **2.6 EK Services – Housing Benefit Quarterly Testing (Quarter 2 of 2017-18):**

### **2.6.1 Background:**

Over the course of 2017-18 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.

### 2.6.2 Findings:

For the second quarter of the 2017-18 financial year (July to September 2017) 20 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.

### 2.6.3 Audit Conclusion:

For this quarter twenty benefit claims were checked and of these one had a financial error that impacted on the benefit calculation (5%) and two had a data quality error (10%) which did not impact on the financial calculation.

## 3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS:

- 3.1 As part of the period's work, two 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)	Performance Management	Reasonable /Limited	Reasonable /Limited	C	0	C	0
				H	3	H	2
				M	2	M	1
				L	4	L	0
b)	East Kent Housing – Fire Risk Assessment Processes and Records Management	Limited	Reasonable	C	0	C	0
				H	2	H	2
				M	2	M	2
				L	0	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.

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

a) Performance Management:

This audit on performance management has highlighted some differences between the opinions of internal audit and senior management particularly in the way business or service plans and staff appraisals are used and documented. From an audit perspective it is widely accepted within local government and the public sector generally that the use of business or service plans and staff appraisals should be consistently applied and well documented in order to strengthen governance and accountability and help re-inforce positive outcomes for staff and for the organisation.

The two high priority recommendations detailed above which are outstanding after follow-up are now being escalated for the attention of the s.151 officer and Members' of the Governance Committee on the grounds that these recommendations have not been implemented by the dates originally agreed with management and that in consequence they continue to represent an unacceptable level of risk to the organization.

Management Response:

Business / Service Plans:

The agreement at CMT was that the business plans form part of a bigger discussion on the hierarchy of policies, corporate planning, business/service planning and performance reporting. Senior Management have started to review all policies and from this the Council will look at how these feed into corporate planning which will inform what we want in the way of business or service plans going forward. This piece of work will run into 2018/19 and we will aim to have a position ready to launch in 2019/20 following the next Council elections. It was agreed that as an interim measure the Head of Corporate Services (CC) would send a note to managers in February to request their 2018/19 business plans.

PPRs:

The Head of EKHR is coming to discuss this issue at CMT next week. There has been considerable debate in the HR professional field as to whether PPRs in their current form achieve their desired purpose. Therefore one of the major discussions at CMT is whether we continue with the formal PPR process or have something more relaxed, which still encourages discussions between managers/supervisors and staff without the formal paperwork. Whichever approach is decided the Council would still need to capture training and development needs.

**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: External Funding Protocol, Licensing, Income, Creditors and CIS, Project Management, Grounds Maintenance, Phones, Mobiles and Utilities, Service Contract Monitoring, Car Parking and Enforcement, and CSO Compliance.

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

- 5.1 The 2017-18 Audit plan was agreed by Members at the meeting of this Committee on 6<sup>th</sup> April 2017.
- 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 2017, 192.36 chargeable days were delivered against the planned target of 260.95, which equates to 74% 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 2017 against the agreed 2017/18 Audit Plan.
- Annex 4 EKAP Balanced Scorecard of Performance Indicators to 31<sup>st</sup> December 2017.
- Annex 5 Assurance statements

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

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
<i>Performance Management – November 2017:</i>		
<p>The Head of Museums and Tourism should complete the draft Business Plan 2016/17 (including sections 1.2, 1.3, 2.1, 2.6, 3.3, 3.5, Section 4, section 5 &amp; section 8. It should then be approved and a copy provided to the Corporate Services Department for clerical and performance monitoring purposes.</p>	<p>The Head of Museums and Tourism will be requested to complete the business plan for 2017/18</p> <p>April 2017</p>	<p><u>Auditor Comments:</u> - Corporate Services had requested that a Business Plan be completed for 2017/18 however the Head of Museums and Tourism did not complete a Business Plan for 2017/18.</p> <p><b>Recommendation outstanding / risk acceptance.</b></p> <p><u>Management Comments:</u> - Senior Management is aware that no business plan has been completed for 2017/18. However management are generally comfortable with the governance structures in place and rely on other governance mechanisms such as performance management reporting, complaint monitoring and risk management activities to provide assurance that the service is being monitored at the correct level.</p>
<p>Directors should be provided with assurance annually (or six monthly) that each service area has undergone its Personal Performance Reviews for each member of staff, highlighting any that were overdue and reasons why.</p>	<p>CMT will be provided with the appropriate assurance that PPRs are being conducted and any necessary encouragement will be provided to staff and managers to ensure they are held throughout the Council.</p> <p>September 2017</p>	<p><u>Auditor Comments:</u> - Senior Management is not formally provided with assurance either six monthly or annually that appraisals have taken place. This is carried out informally which was what was happening before the initial audit took place.</p> <p><b>Recommendation outstanding / risk acceptance.</b></p>

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

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
		<p><u>Management Comments:</u> - Senior Management is aware that appraisals are not documented consistently throughout the organisation. However management are generally comfortable with the governance structures in place and rely on other governance mechanisms such as performance management reporting and risk management activities to provide assurance that the service is being monitored at the correct level.</p>
<p><i>East Kent Housing – Fire Risk Assessment Processes and Records Management – February 2018:</i></p>		
<p>A management information quarterly report should be developed to provide ongoing information to management both at EKH and for each authority to give them an assurance that fire risk assessments are being carried out and that works are being carried out to address the issues identified from them.</p>	<p>This is being incorporated into the monthly KPI monitoring information and is also a standing item on the OMT agenda.</p> <p><b>Proposed Completion Date / Responsibility</b> December 2017 / Operations Manager (Homeownership) (FS)</p>	<p>Fire Safety is a standing item on the fortnightly OMT agenda and currently in the monthly KPI's the only information that is reported is the number of completed fire risk assessments that are in place.</p> <p><b>Recommendation is ongoing.</b></p>
<p>As part of the implementation of the new Pyramid software, review the resources that will be required to ensure that it is kept up to date and then a case should be made to Senior Management to address any shortfall.</p>	<p>When the FRA works needed are evaluated officer resource will be considered.</p> <p><b>Proposed Completion Date / Responsibility</b> January 2018 / Operations Manager (Homeownership) (FS)</p>	<p><b>Short Term Resources</b> To address the major exercise that is being carried out to complete Type 3 fire risk assessments and put in place schedules of works from the findings of these assessments both internal staff and contractors / agency staff have been used. To date there are only a small number of fire risk assessments still to be completed where access has been an issue but these are being addressed.</p>

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

Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager's Comment on Progress Towards Implementation.
		<p>As a result of the fire risk assessments being carried out works have been identified that need to be carried out. The vacant post in the Compliance and Servicing Team will be used to appoint a specification writer (short term through an agency) for compartmentalisation issues in converted buildings, sheltered buildings and other general needs locations. These building specifications will include all other fireworks identified by the fire risk assessments and consider any others referred by the Fire Service. This will ensure that once work is completed the building requires no further works reducing the risk of compromising the buildings.</p> <p><b>Long Term Resources</b> Going forward long term it is felt that the resources in place will be adequate to deliver the ongoing monitoring and follow up work on fire risk assessments.</p> <p><b>Recommendation is ongoing</b></p>

<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>
Land Charges	December 2017	Reasonable/Limited	Spring 2018
Inward Investment	December 2017	Reasonable/Limited	Spring 2018

## PROGRESS AGAINST THE AGREED 2017-18 AUDIT PLAN.

## DOVER DISTRICT COUNCIL:

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2017	Status and Assurance Level
<b>FINANCIAL SYSTEMS:</b>				
Car Parking & Enforcement	12	12	0.51	Work-in-Progress
Creditors & CIS	12	10	0.18	Work-in-Progress
External Funding Protocol	10	10	3.91	Work-in-Progress
Income	10	10	0.18	Work-in-Progress
<b>GOVERNANCE RELATED:</b>				
Officers' Code of Conduct	10	11.5	11.58	Finalised - Reasonable
Local Code of Corporate Governance	8	9	9.32	Finalised - Reasonable
Scheme of Officer Delegations	7	7	5.64	Finalised - Substantial
Project Management	10	10	4.98	Work-in-Progress
Corporate Advice/CMT	2	2	4.47	Work-in-Progress throughout 2017-18
s.151 Meetings and support	9	9	10.06	Work-in-Progress throughout 2017-18
Governance Committee Meetings and Reports	12	12	10.18	Work-in-Progress throughout 2017-18
2018-19 Audit Plan Preparation and Meetings	9	9	2.1	Work-in-Progress
<b>CONTRACT RELATED:</b>				
CSO Compliance	12	12	9.33	Work-in-Progress
Service Contract Monitoring	10	10	7.6	Work-in-Progress
<b>SERVICE LEVEL:</b>				
Safeguarding Return to KCC	1	0	0	Not Required
Coastal Management	10	10	0	Quarter 4
CCTV	10	8.5	8.6	Finalised - Substantial
Port Health	10	12	11.59	Finalised - Substantial
Pollution, Contaminated Land, Air & Water Quality	10	10	10.72	Finalised - Reasonable
Health & Wellbeing	10	0	0	Postpone to accommodate unplanned work

Review	Original Planned Days	Revised Planned Days	Actual days to 31-12-2017	Status and Assurance Level
Grounds Maintenance	15	15	0	Work-in-Progress
Licensing	12	12	0.18	Work-in-Progress
Asset Management	15	0	0	Postpone to accommodate unplanned work
Phones, Mobiles & Utilities	8	8	6.57	Work-in-Progress
<b>OTHER</b>				
Liaison with External Auditors	1	1	0	Work-in-Progress throughout 2017-18
Follow-up Work	15	12	10.2	Work-in-Progress throughout 2017-18
<b>FINALISATION OF 2016-17- AUDITS</b>				
Homelessness	5	5	6.06	Finalised - Substantial
Planning Applications, Income & s106 Agreements			3.51	Finalised – Substantial/Reasonable
Land Charges			8.48	Finalised – Reasonable/Limited
Anti-Fraud & Corruption			4.83	Finalised - Reasonable
Inward Investment			18.99	Finalised – Reasonable/Limited
Right to Buy			3.66	Finalised - Reasonable
Days under delivered in 2016-17	0	5.95	0	Completed
<b>RESPONSIVE ASSURANCE:</b>				
Sandwich Historical Boat Yard	0	18	17.63	Work-in-Progress
Environmental Crime	0	10	1.3	Work-in-Progress
<b>TOTAL</b>	<b>255</b>	<b>260.95</b>	<b>192.36</b>	<b>74% as at 31<sup>st</sup> December 2017</b>

**EAST KENT HOUSING LIMITED:**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-12-2017</b>	<b>Status and Assurance Level</b>
<b>Planned Work:</b>				
CMT/Audit Sub Ctte/EA Liaison	4	4	3.99	Work-in-progress throughout 2017-18
Follow-up Reviews	4	4	0.78	Work-in-progress throughout 2017-18
Finance Systems & ICT Controls	15	15	0	Work-in-progress
Data Protection & Information Management	12	12	0.18	Work-in-progress
Leasehold Services	15	15	0.24	Work-in-Progress
Fire Safety	15	18	17.10	Work-in-Progress
Safeguarding Children & Vulnerable Groups	10	15	14.59	Work-in-Progress
Anti-Fraud & Corruption	10	10	0	Work-in-Progress
Risk Management	10	10	4.16	Work-in-Progress
Performance Management	5	0	0	Postponed until 2018-19
Complaints Monitoring	10	10	3.67	Work-in-Progress
Single System – Post Implementation Review	10	13	12.18	Work-in-Progress
Property Services Improvement Plan	20	0	0	Postponed
<b>Finalisation of 2016-17 Work-in-Progress:</b>				
Days under delivered in 2016-17	0	7.84	0	Completed
Performance Indicator Data Quality	0	0	8.62	Finalised - Reasonable
<b>Responsive Assurance:</b>				
Contract Management	0	14	0.31	Quarter 4
<b>Total</b>	<b>140</b>	<b>147.84</b>	<b>65.82</b>	<b>44.52% at 31-12-2017</b>

**EK SERVICES:**

<b>Review</b>	<b>Original Planned Days</b>	<b>Revised Planned Days</b>	<b>Actual days to 31-12-2017</b>	<b>Status and Assurance Level</b>
<b>EKS Reviews:</b>				
Housing Benefits Payments	15	16	15.51	Completed - Substantial
DDC / TDC HB Testing	20	20	15.95	Work-in-progress throughout 2017-18
Business Rates	20	20	17.51	Completed - Substantial
Council Tax Reduction Scheme	15	15	0	Quarter 4
ICT – Data Management	15	15	16.38	Work-in-progress
ICT – Procurement & Disposal	15	15	0.17	Quarter 4
<b>EKHR Reviews:</b>				
Payroll	15	15	0.23	Work-in-progress
Employee Allowances & Expenses	15	15	0.07	Quarter 4
Employee Health & Safety	15	0		Responsibility transferred
<b>Other:</b>				
Corporate/Committee	8	10	4.16	Ongoing
Follow up	7	12	6.02	Ongoing
Days under delivered in 2016-17	17.70	24.70	0	Completed as below
<b>Finalisation of 2016/17 Audits:</b>				
Housing Benefit Subsidy			7.92	Completed – Substantial
ICT Change controls			2.34	Completed – Substantial
ICT Software Licensing			3.45	Completed - Reasonable
EKHR – Payroll & BIK			7.33	Completed - Substantial
<b>Total</b>	<b>177.7</b>	<b>177.70</b>	<b>97.04</b>	<b>55% at 31-12-2017</b>

**BALANCED SCORECARD – QUARTER 3**

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Original Budget</u>
	Quarter 3		Reported Annually		
Chargeable as % of available days	83%	80%	• Cost per Audit Day	£	£309.77
Chargeable days as % of planned days			• Direct Costs	£	£385,970
CCC	66%	75%	• + Indirect Costs (Recharges from Host)	£	£10,530
DDC	73%	75%	• - 'Unplanned Income'	£	Zero
SDC	61%	75%	• = Net EKAP cost (all Partners)	£	£396,500
TDC	73%	75%			
EKS	55%	75%			
EKH	45%	75%			
Overall	64%	75%			
Follow up/ Progress Reviews;					
• Issued	39	-			
• Not yet due	29	-			
• Now due for Follow Up	17	-			
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>2017-18 Actual</u>	<u>Target</u>	<u>INNOVATION &amp; LEARNING PERSPECTIVE:</u>	<u>2017-18 Actual</u>	<u>Target</u>
	Quarter 3				
Number of Satisfaction Questionnaires Issued;	45		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	26 = 58%		Percentage of staff holding a relevant higher level qualification	38%	38%
Percentage of Customers who felt that;			Percentage of staff studying for a relevant professional qualification	14%	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	3.19	3.5
	100%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	38%	38%

## 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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<b>Subject:</b>	<b>DRAFT INTERNAL AUDIT PLAN 2018-19</b>
<b>Meeting and Date:</b>	<b>Governance Committee – 8<sup>th</sup> March 2018</b>
<b>Report of:</b>	<b>Christine Parker – Head of Audit Partnership</b>
<b>Decision Type:</b>	<b>Non-key</b>
<b>Classification:</b>	<b>Unrestricted</b>

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**Purpose of the report:** This report presents the proposed Internal Audit Plan for 2018/19 detailing a breakdown of audits and an analysis of available days.

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**Recommendations:** That Members approve the Council's Internal Audit Plan for 2018/19

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**Summary.**

This report sets out 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 2018/19 Risk Based Internal Audit Plan.**

2.1 The Audit Plan for the year 2018 to 2019 is attached as Annex A and has the main components to support the Audit Charter. The Audit Charter was presented to the March 2017 meeting of this Committee at which time it was agreed for a three year period and will therefore be represented in March 2020. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based 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 amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.

2.2 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.

- 2.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. We call this process 'horizon scanning' and this year we have considered the inclusion of the top ten Institute of Internal Audit identified risks;
- 1 **GDPR** – the new data protection regulations affect information governance and audits have been built into the plan to provide assurance on these risks.
  - 2 **Cyber Security** – we have a number of ICT reviews built into the EKS audit plan to support the network and digital environment; where possible we will buy in specialist contractors to undertake technical ICT reviews.
  - 3 **Brexit** – we have considered this risk and determined that it is too early for us to include anything specific relating to Brexit in the 18-19 audit plan, but will re-consider it again for future years.
  - 4 **Vendor Risk & Third Party Assurance** – the non-performance of contractors and suppliers is always a risk to the Council, events such as the collapse of Carillion focus the mind indeed. We are consequently proposing a review of Contract Management in the EKH plan.
  - 5 **Culture** – this risk is an emerging area for assurance, BDO and other firms are working on establishing top down reviews and we have assessed this and are keeping a watching brief on developments for future consideration. Reviews that we have typically done in this area include Gifts and Hospitality, Ethics and compliance with Codes of Conduct.
  - 6 **Internal Audit Profession Evolving**- this risk is regarding our service keeping up with the new professional standards and changes in technology. It is not built into the 18/19 plan as a separate issue; it is however addressed by keeping up to date with the profession, colleagues in Kent Audit Group, and through Continued Professional Development.
  - 7 **Pace of Innovation** – a project has been included within another East Kent Council plan specifically regarding this risk, it has been considered and is one to be reconsidered for next year for DDC.
  - 8 **Workforce Planning** – this has been considered and a review is not proposed for 18/19 as significant work has been undertaken recently by the council and needs time to embed, therefore this will be revisited for next year.
  - 9 **Regulatory** – this is a constant risk as the external environment throws new laws at a council and it has to respond. New legislation is something we consider for each area within the audit plan, and thus a separate 'cross cutting' review has not been proposed for 18/19.
  - 10 **Fraud** – is an ongoing risk assessed in every area of activity that the Council undertakes. Typically we have assessed the Counter Fraud Framework within which the Council operates. This year however a provision for 10 days has been set aside to map counter fraud assurance and undertake some targeted testing.
- 2.4 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.
- 2.5 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 2018/19 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.

- 2.6 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 2018/19 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.
- 2.7 The risk assessment and consultation to date has resulted in;
- 71% Core Assurance Projects- the main Audit Programme
  - 4% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
  - 4% Corporate Risk – testing the robustness of corporate risk mitigating action
  - 21% Other Productive Work – Corporate meetings, follow up, general advice, liaison
- Total number of audits 19.

For 2018/19 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 19 audits.

### 3.0 **Benchmarking the level of Internal Audit Provision.**

- 3.1 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.

### 4.0 **Head of Internal Audit Opinion of the 2018/19 Internal Audit Plan.**

- 4.1 This report is presented to Members by the Council's Director of Finance, Housing & Communities 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.
- 4.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2018/19 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 current resources of the EKAP will allow for an opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement.
- 4.3 The Head of the East Kent Audit Partnership highlights that Members either approve the 2018/19 internal audit plan as drafted or they may recommend to Cabinet that additional resources should be 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.

## **5.0 Background Papers.**

- Internal Audit Annual Plan 2017/18 - Previously presented to and approved at the April 2017 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     Dover District Council draft 2018/19 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.

Plan Area	Corporate Plan and/or Corporate Risk Ref:	Year last audited	Previous Assurance level	2018-19 planned days	Quarter Prioritised for 2017-18	2019-20 Planned Days	2020-21 Planned Days	2021-22 Planned Days
<b>Financial Systems:</b>								
Capital	CR3	2015-16	Reasonable	10	3			
Treasury Management	CR4	2016-17	Substantial				10	
Car Parking & Enforcement	CP1	2017-18	Reasonable			12		12
Bank Reconciliation		2015-16	Substantial	5	3			
Creditors and CIS		2017-18	2017-18 WIP					12
External Funding Protocol	CP1 & CP4	2017-18	Reasonable					10
Main Accounting System	CP4 & CR3	2016-17	Substantial			10		
Income	CP4	2017-18	2017-18 WIP					10
Budgetary Control	CP4, CR3 and CR11	2016-17	Substantial			10		
VAT		2015-16	Reasonable	10	3			
Insurance and Inventories of Portable Assets		2016-17	Substantial			12		
<b>Residual Housing Systems:</b>								
Homelessness	CR12	2016-17	Substantial	10	1	10		
Housing Allocations	CP3 & CR12	2015-16	Substantial	10	1		10	
Right to Buy		2016-17	Reasonable				10	
HRA Business Plan	CP3	2010-11	Limited				10	
EKH Audit Reviews		2016-17	See EKH Plan	15	1 to 4	15	15	15
<b>Governance Systems:</b>								
Data Protection, FOI and Information Management	CP4 & CR15	2016-17	Substantial	15	2		15	
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	2017-18	Reasonable					10
Local Code of Corporate Governance	CP4	2017-18	Reasonable					10
Anti-Fraud & Corruption Assurance mapping		2016-17	Reasonable	10	2			
Performance Management	CP4 & CR21	2016-17	Reasonable/Limited				10	
Complaints Monitoring	CP4	2014-15	Substantial	10	4			
Shared Services Monitoring	CP4, CR9 & CR10	2015-16	Reasonable				10	
Scheme of Officer Delegations	CP4	2017-18	Substantial					10
Corporate/Governance and Audit Committee		2015-16	N/A	32	1 to 4	32	32	32
Project Management	CP4	2017-18	2017-18 WIP					10
Risk Management	Informs all Corporate Risks	2015-16	Reasonable	10	3			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	2017-18	Reasonable				15	
Service Contract Monitoring	CP4	2017-18	Reasonable					10
Receipt and Opening of Tenders	CP4	2016-17	Substantial				10	
Procurement	CP4	2015-16	Reasonable			10		
<b>Service Level Audits:</b>								
Inward Investment	CP1	2016-17	Reasonable/Limited				15	
Cemeteries		2016-17	Reasonable				10	
Safeguarding Children and Vulnerable Groups/DBS Checks	CP3	2014-15	Reasonable	10	3			
Private Sector Housing – HMO Licensing	CP3	2014-15	Reasonable	10	2			
Community Safety	CP2	2015-16	Substantial			11		

Community Safety	CP2	2015-16	Substantial			11		
Coastal Management		2017-18	2017-18 WIP					10
CCTV	CP2	2017-18	Substantial					10
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	2			
Environmental Health – Public Health Burials	CP3	2015-16	Reasonable			10		
Environmental Health - Port Health	CP3	2017-18	Substantial					10
Environmental Health – Pest Control	CP3	2014-15	Substantial	10	2			
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	2017-18	Reasonable					10
Business Continuity and Emergency Planning	CR7	2016-17	Reasonable				12	
Playgrounds	CP3	2016-17	Reasonable				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	4			
Health and Wellbeing	CP3	2017-18	2017-18 WIP					10
Grounds Maintenance	CP2 & CP4	2017-18	2017-18 WIP					14
Disabled Facilities Grants	CP3	2016-17	Substantial				10	
Land Charges		2016-17	Reasonable/Limited				10	
Licensing	CP3	2017-18	2017-18 WIP					12
Museum and VIC	CP1	2015-16	Substantial			15		
Asset Management	CP4	2017-18	2017-18 WIP					12
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	Limited/Substantial				15	
Local Plan, Corporate Plan and MTFP		New Area	To be Assessed	10	4			
Building Control		2015-16	Reasonable	12	1			
Petty Cash, Imprest Floats and Travel Warrants		Pre 2004-05	To be Assessed					
Uniform iDox Post Implementation Review		New Area	To be Assessed	13	3			
Phones, Mobiles and Utilities - Expenditure and Controls		2017-18	Substantial/Reasonable					10
Printing, photocopying and postage		2015-16	Substantial			10		
Your Leisure - Sports and Leisure	CP1 & CP3	2015-16	Reasonable			15		
Whitecliffs Countryside and Up on the Downs	CP2	2014-15	Reasonable	12	1			
Waste Management and Street Cleansing	CP2	2014-15	Reasonable	15	4			
Garden Waste and Recycling Income	CP2	2016-17	Reasonable				10	
<b>Total Planned Days:</b>				<b>270</b>		<b>270</b>	<b>270</b>	<b>270</b>

**EAST KENT HOUSING:**

Plan Area	Corporate Risk Reference	Year last audited	Previous Assurance level	2018-19 Planned Days	2019-20 Planned Days	2020-21 planned days
Governance (externally reviewed in 2016-17)	S7 & O7	2011-12	Reasonable		15	

Finance Systems and ICT Controls	O4	2017-18 WIP	Substantial			15
Data Protection and Information Management	O5	2017-18 WIP	To be assessed			15
CMT/Audit Committee/EA Liaison		2017-18	N/A	4	4	4
Rent Accounting, Collection and Debt Management		2013-14	Reasonable		40	
Repairs, Maintenance including contract variations		2015-16	Limited	30		
Void Property Management		2015-16	Limited	20		
Leasehold Services		2017-18 WIP	Limited			35
Health and Safety (Lifts, Legionella and Asbestos)	O8	2017-18	Reasonable/Limited	20	15	15
Sheltered and Supported Housing (including Supporting People)		2015-16	Limited			
Safeguarding Children and Vulnerable Groups	O3	2017-18	Reasonable			15
Tenancy and Estate Management		2012-13	Reasonable		30	
Tenancy Fraud	O10	2017-18	2017-18 WIP			15
Contract Letting - CSO Compliance		2015-16	Reasonable		17	
Contract Monitoring & Performance - VFM	O10	New Area	To be assessed	17		
Performance Management	O11	New Area	To be assessed	15		
Risk Management	O11	2017-18	2017-18 WIP			12
Complaints		2017-18	2017-18 WIP			10
Welfare Reform		New Area	To be assessed	10		
Resident Involvement		New Area	To be assessed	10		
Service Level Agreements		New Area	To be assessed	10		
Employee Health, Safety & Welfare	O2 & O8	New Area	To be assessed		15	
Follow Up / Progress reviews		2016-17	Ongoing	4	4	4
<b>Total Planned Days:</b>				<b>140</b>	<b>140</b>	<b>140</b>

**EK SERVICES:**

Plan Area	Year last audited	Previous assurance level	2018-19 Planned Days	2019-20 Planned Days	2020-21 Planned Days	2021-22 Planned Days
<b>EK Services - Civica Revenues &amp; Benefits</b>						
Housing Benefits – Payment	2017/18	Substantial				15
Housing Benefits – Overpayments	2016/17	Substantial			15	
Housing Benefits – Admin & Assessment	2014/15	Substantial	15			
Housing Benefit - Appeals	2015/16	Substantial		15		
Housing Benefit - DHP	2015/16	Substantial	15			
Housing Benefit - Subsidy	2016/17	Substantial			15	
Housing Benefit - Quarterly Testing	2016/17	N/A	15	15	15	15
Council Tax	2014/15	Substantial		20		
Council Tax Reduction Scheme	2013/14 (2017)	Substantial				15
Customer Services/Gateway	2016/17	Reasonable			20	
Business Rates	2017/18	Substantial				20
Business Rates - Reliefs \ Credits	2015/16	Reasonable		15		
Debtors and Rechargeable Works	2015/16	Substantial	20			
<b>EK Services - Corporate</b>						
Corporate / Audit Plan			8	8	8	8
Annual Performance KPI	New Area	Data Quality	5	5	5	5
Follow ups			7	7	7	7
<b>EK Services - ICT</b>						
ICT – Change Controls	2016/17	Substantial			15	
ICT - Data Management	2014/15 (2017)	Reasonable				15
ICT – Network Security	2012/13	Substantial	15			
ICT – Procurement and Disposal	2013/14 (2017)	Reasonable				15
ICT – Physical and Environment	2014/15	Reasonable		15		

ICT - Software Licensing	2016/17	Reasonable			15	
ICT - PCI-DSS	2015/16	Limited	15			
ICT - Disaster Recovery	2015/16	Sub / Reasonable		15		
<b>EK Services - EKHR</b>						
Recruitment	2016/17	Substantial		15		
Absence Management/Annual Leave and Flexi Leave	2015/16	Reasonable / Limited	15			15
Payroll, SMP and SSP	2016/17	Substantial	15	15	15	15
Employee Allowances and Expenses	2017/18				15	
Employee Benefits-in-kind	2016/17	Substantial / Limited		15		
Leavers	2016/17	Substantial			15	
Employee Health, Safety and Welfare	2014/15 (2017)	Reasonable / Limited	Transferred to Partner's Plans			
Apprenticeships / Training	New Area	To Be Assessed	15			15
<b>Total EK Services Planned Days</b>			<b>160</b>	<b>160</b>	<b>160</b>	<b>160</b>

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<b>Subject:</b>	<b>TREASURY MANAGEMENT QUARTER THREE REPORT 2017/18</b>
<b>Meeting and Date:</b>	<b>Governance – 8<sup>th</sup> March 2018</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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**Purpose of the report:** To provide details of the Council's treasury management for the quarter ended 31<sup>st</sup> December 2017 (Q3) and an update of activity to date.

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**Recommendation:** That the report is received

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## 1. Summary

- 1.1 The Council's investment return for the year-to-date was 0.65%, which outperformed the benchmark<sup>1</sup> by 0.25%. Actual interest and dividends income to the end of December was £316k, which is a favourable variance compared with the year-to-date (YTD) budget of £229k. The Council's projected investment return for 2017/18 is £552k, which is £247k better than the original budget estimate of £305k. This improvement is due to the estimated dividend from investments in pooled investment funds.
- 1.2 As of 1st April 2017, the Council appointed Arlingclose Limited as its treasury advisors, and they have proposed various investment options that would help to improve returns and spread risk. At the Investment Advisory Group on 4th October 2017 the group considered the pooled investment funds suggested by Arlingclose. It was proposed to deposit up to £28m into a number of these funds to improve income. £6m had already been placed in the CCLA property fund, with a forecast return of 4.57%.
- 1.3 During December, £12 million was deposited into pooled investment funds: £6 million was invested with Colombia Threadneedle in their strategic bond fund and £6 million was invested with Investec in their diversified income fund. Both funds are forecast to generate an annual return exceeding 4%. This will significantly improve the overall return on the Council's investments.
- 1.4 It is currently proposed to invest a further £8 million in Payden and Rygel's sterling reserve fund once the account opening process has been completed. This generates a return closer to 1.0%, which is better than standard money market and bank deposit rates, but lower than the other pooled investment fund returns as it is a more liquid investment.

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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.

- 1.5 A new International Financial Reporting Standard (IFRS9) is due to be implemented from 2018/19, which could force us to charge unrealised gains or losses on the capital value of such funds to the General Fund revenue budget each year, even if we propose to hold the funds for a longer period of time and avoid selling if the capital value is lower than the price paid. It is often normal to pay a premium on purchasing such funds, as with the CCLA Property Fund, to take account of stamp duty and other costs but, over time, the capital value is expected to rise, based on past trends, so that capital losses are unlikely in the longer term. However, we currently recognise the dividend returns, paid each year, and credit these returns to our budget. We are awaiting further guidance from CIPFA as to whether there will be any statutory override for local authorities. In the meantime, to reduce the potential impact of this on the General Fund, the 2018/19 budget proposes setting aside £2m in the Dover Regeneration and Economic Development Reserve as a prudent provision for any unexpected potential fluctuations in the capital value of investments.
- 1.6 The forecast return of £552k for the full financial year includes estimates for additional income from investments made in pooled funds in December, in addition to the return on the £6m invested in the CCLA property fund earlier in the financial year.
- 1.7 The Council remained within its Treasury Management and Prudential Code guidelines during the period.

## 2. Introduction and Background

- 2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; 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.
- 2.2 Council adopted the 2017/18 Treasury Management Strategy (TMS) on 1st March 2017 as part of the 2017/18 Budget and Medium Term Financial Plan.
- 2.3 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 Advisors, Arlingclose.
- 2.4 Members are asked to note that, in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.
- 2.5 As at 31<sup>st</sup> December 2017, the Council's investment portfolio totalled £55.9m (see Appendix 2). However, some of this is shorter term, as significant funds sitting in the Dover Regeneration and Economic Development Reserve are earmarked for spending during 2017/18 and 2018/19 on the new Dover District leisure centre and other approved capital projects. After these approved commitments, there should be £20m - £25m underlying core funds available for longer term investment, while the remainder of funds will need to be kept in shorter term instruments and bank accounts for cash-flow requirements and future capital projects (subject to project appraisals).

2.6 In December £6 million was deposited into Columbia Threadneedle's strategic bond fund and £6 million was deposited into Investec's diversified income fund.

2.7 From 3 January 2018 the MIFID II regulations came in to force, which has meant that the authority has had to apply to its investment advisors and investment providers to be recognised as a professional client in order to continue to be able to use their services.

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

3.1 The investment portfolio, as at the end of December 2017, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £55.8m, rising to £58.9m at the end of January (see Appendix 4). The increase reflects normal cash-flow fluctuations 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.

3.2 Since the end of the December quarter, the HSBC notice account funds have been repaid (£7.5m). This will be used to manage cash flow over the financial year end. Additionally, notice has been given on the Santander 95 day account and the funds will be repaid in March 2018 and considered for investment in the Payden & Rygel sterling reserve fund to generate better returns while maintaining good liquidity.

3.3 All other funds are currently being held in call accounts, and the process of opening new investment fund accounts is progressing, but without an absolute commitment to making further deposits.

3.4 The Bank of England raised the base rate from 0.25% to 0.5% on 2<sup>nd</sup> November and this has resulted in a slight improvement in the returns on the money market funds and NatWest SIBA account.

3.5 Cash-flow funds decreased from £16.9m at 30<sup>th</sup> September 2017 to £13.0m at 31<sup>st</sup> December 2017 (see Appendix 2), and then increased to £23.6m by the end of January 2018 (see Appendix 4); although this is expected to reduce in the coming weeks due to approved capital spend. The movement in cash-flow funds in the quarter reflects in-flow from Local Authority deposits maturing (£10m) and further increases from the pattern of Council Tax receipts, etc., less £4.2m for the purchase of an investment property in November and £12m investments made in pooled investment funds in December. The increase in January is due to the HSBC deposit maturing (£7.5m).

3.6 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

### 4. **Economic background**

4.1 The report attached (Appendix 1) contains information up to the end of December 2017; since then we have received an update from Arlingclose, included below. Please note that any of their references to quarters are based on calendar years:

## **Introduction**

4.2 *The economic outlook remains uncertain as negotiations for the UK to leave the EU continue.*

4.3 *The Bank of England has raised expectations that further rate rises will be sooner and higher than previously anticipated.*

## **UK Data**

4.4 *In February, the Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep Bank Rate at 0.5% and published its quarterly Inflation Report. The Report and accompanying monetary policy press conference raised expectations for further rises in Bank Rate, both sooner and to a higher level than previously anticipated by markets. Reiterating the view of the UK economy's impaired supply capacity and survey data of higher private sector earnings growth, meaning inflationary outcomes are more likely, the MPC also revised the UK's economic growth prospects slightly higher due to the pull of global economic momentum. Significantly, the MPC also decided to shorten the forecast horizon over which inflation will be brought back to the CPI target.*

4.5 *Uncertainty remains regarding the UK's exit from the European Union and therefore the UK economy still faces a challenging outlook. The MPC's projections assume that households and companies base their decisions on a smooth adjustment to the new trading relationship with the EU.*

4.6 *The second estimate of UK Q4 2017 GDP was published and showed growth of 0.4% on the quarter and 1.4% year-on-year, both of which were revised down by one percentage point from the first estimate. Inflation data for January 2018 showed CPI remaining slightly higher than expected at 3%, but expectations are for this to gradually ease in the medium term as the effects of the previous depreciation in sterling start to wane. Labour market data for the period to December 2017 showed employment increasing and pay growth edging up to 2.5%, although real wage growth (adjusting for inflation) remains negative.*

4.7 *The second estimate of UK Q4 2017 GDP was published and showed growth of 0.4% on the quarter and 1.4% year-on-year, both of which were revised down by one percentage point from the first estimate.*

## **Global**

4.8 *Near-term global growth prospects continued to improve and broaden. Expectations of inflation, while relatively subdued, started to increase, particularly on the back of US economic momentum, increasing oil prices and improving emerging markets growth. Data in the US continued to suggest an increasingly buoyant economy receiving a further boost from President Trump's tax reforms and expectations remained for the Federal Reserve to hike rates several times during 2018. The prospect of central bank stimulus being removed more rapidly than expected, amongst other things, led to relatively sharp corrections in stock market values in early February. The Eurozone economy continued to perform well, raising expectations that the ECB could possibly look to bring an end to its asset purchase programme over the next year.*

## **Interest Rates & Financial Indicators**

- 4.9 *Following these signals from the MPC, Arlingclose's central case is for Bank Rate to rise twice in 2018 and once more in the first half of 2019, with the risks weighted to the downside.*

## **Regulatory**

- 4.10 *Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.*
- 4.11 *The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.*

## **5. Net Borrowing**

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

## **6. Debt Rescheduling**

- 6.1 At this time it is not of benefit to the Council to consider rescheduling of its long-term debt, as advised by Arlingclose.

## **7. Compliance with Treasury and Prudential Limits**

- 7.1 The Council has operated within the treasury limits and Prudential Indicators, and in compliance with the Council's Treasury Management Practices.

## **Appendices**

Appendix 1 – Arlingclose Treasury Management Report for Quarter Three

Appendix 2 – Investment portfolio as at 31 December 2017

Appendix 3 – Borrowing portfolio as at 31 December 2017

Appendix 4 – Investment portfolio as at 31 January 2018

## **Background Papers**

Medium Term Financial Plan 2017/18 – 2020/21

Revised 2017/18 Treasury Management Strategy (Council 19<sup>th</sup> July 2017)

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

Date: 27<sup>th</sup> February 2018

## Treasury Management Report Q3 2017/18

### Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The treasury management strategy for 2017/18 was approved at a meeting of the Authority on 1<sup>st</sup> March 2017. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

### External Context

**Economic backdrop:** The significant economic event was the increase in the Bank Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England's MPC to rates since July 2007. The vote to increase Bank Rate was 7-2, reflecting the MPC's growing concern that rising inflation had finally outweighed the risks to growth and largely to meet expectations the Bank itself created. The Bank has reiterated that it expects any future increases in Bank Rate to be at a gradual pace and limited in extent.

Commodity prices rose over the period with oil increasing to around \$67 a barrel from a low of \$42 in June. UK Consumer Price Inflation (CPI) index continued to rise with the data print for November showing CPI at 3.1%, its highest since March 2012 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.8%.

The number of unemployed in the economy continued to decrease, although the unemployment rate remained at 4.3%. Consumers' wages continued to shrink, in real terms, given average earnings growth remained subdued at 2.5%, a good deal below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q2 and Q3 GDP growth of 0.3% and 0.4% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household savings remaining relatively low and real wage growth negative, there are concerns that these will be a constraint on future economic activity.

In contrast, near-term global growth prospects improved. The US economy grew steadily and inflation increased to 2.2%. As was expected, the Federal Reserve increased its target range of official interest rates in December for the third time in 2017 by 25 basis points to between 1.25% and 1.50%. The Fed is expected to deliver three more increases in 2018 and a further two in 2019. The central bank's growth forecasts were revised up based on the newly-passed personal and corporate tax rate cuts proposed by Donald Trump.

In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take a very measured approach to any monetary policy tightening. Any increases will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

**Financial markets:** Gilt yields were broadly stable over the quarter as much of the uncertainty which plagued the first half of the year dissipated. The yield on the 5-year gilts fell slightly to 0.72% at the end of the quarter, down from 0.80% in September. The 10-year gilts similarly fell from 1.38% to 1.19% at the end of the quarter and the 20-year gilts from 1.94% to 1.73%.

The FTSE 100 continued to climb, reaching yet another record high of 7688 at the end of calendar year. Money markets rates, unsurprisingly, have increased over the quarter: 1-month, 3-month and 12-month LIBID rates have averaged 0.43%, 0.47% and 0.76% over the period October-December.

**Credit background:** UK bank credit default swaps have remained broadly stable throughout the quarter. Bank share prices have not moved in any pattern.

Much of the activity by credit rating agencies during the quarter has related to the upcoming UK bank ringfencing which will take effect in 2018. Ringfencing requires the larger UK banks to separate their core retail banking activity from the rest of their business, resulting in two separate banks. In general, the agencies expect to give the ringfenced “retail” bank a higher credit rating than the non-ringfenced “investment” bank. In practice, this will only affect Barclays, HSBC, Lloyds and RBS as other UK banks and building societies either only conduct retail banking activities or have less than £25 billion of deposits covered by the Financial Services Compensation Scheme.

Barclays Bank plc was upgraded to A from A- by Standard & Poor’s (S&P), after the bank announced its plans for its ringfenced bank, Barclays Bank UK plc, and the non-ringfenced bank, Barclays Bank plc. S&P also assigned preliminary ratings of ‘A/A-1’ to Barclays Bank UK plc.

In November S&P revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings. These reflect the agency’s view that the institutions now show increased resilience, have made substantial progress in meeting regulatory capital requirements and are now better positioned to deal with uncertainties and potential turbulence in the run-up to the UK’s exit from the EU in March 2019.

There have been no changes to Arlingclose’s investment advice regarding banks and building societies during the quarter.

### **Regulatory Updates**

**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3<sup>rd</sup> January 2018 local authorities will be treated as retail clients but can “opt up” to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

**CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The Authority is currently considering the changes from the 2011 Code for incorporation into future Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which sets out the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced, it must be approved by full Council, and the determination of the Treasury Management Strategy can then be delegated to a committee.

In the 2017 Treasury Management Code the definition of ‘investments’ has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy.

**DCLG Consultations on Investment Guidance and Minimum Revenue Provision (MRP):** In November the DCLG consulted on proposed changes to its Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP) with a deadline for responses of 22<sup>nd</sup> December.

Proposed changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The draft Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies should detail the extent to which core expenditure is reliant on investment income and a contingency plan should yields on investments fall.

There is a proposed change to the basis of prudent MRP to “cover the gap between the Capital Financing Requirement (CFR) and grant income/capital receipts”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

The Authority is however aware of the Ministry of Housing, Communities and Local Government’s (MHCLG) proposed changes to the Investment Guidance for English authorities.

### **Local Context**

On 31<sup>st</sup> March 2017, the Authority had net borrowing of £25m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £000
General Fund CFR	15,266
HRA CFR	76,309
<b>Total CFR</b>	<b>91,575</b>
Less: Usable reserves	(60,833)
Less: Working capital	(5,430)
<b>Net borrowing</b>	<b>25,312</b>

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31<sup>st</sup> December 2017 and the change over the period is show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £000	Movement £000	31.12.17 Balance £000	31.12.17 Rate %
Long-term borrowing	85,515	0	85,515	
Short-term borrowing	6,153	(5,068)	1,085	
<b>Total borrowing</b>	<b>91,668</b>	<b>(5,068)</b>	<b>86,600</b>	<b>3.39%</b>
Long-term investments	0	18,000	18,000	
Short-term investments	55,704	(30,856)	24,848	
Cash and cash equivalents	10,652	2,386	13,038	
<b>Total investments</b>	<b>66,356</b>	<b>(10,470)</b>	<b>55,886</b>	<b>0.65</b>
<b>Net borrowing</b>	<b>(25,312)</b>	<b>(5,402)</b>	<b>(30,714)</b>	

### Borrowing Strategy during the first three quarters

At 31/12/2017 the Authority held £86.6m of loans, (a decrease of £5m on 31/3/2017), as part of its strategy for funding previous years' capital programmes. The 31<sup>st</sup> December 2017 borrowing position is show in table 3 below.

Table 3: Borrowing Position

	31.3.17 Balance £000	Movement £000	31.12.17 Balance £000	31.12.17 rate %
Public Works Loan Board	84,668	(1,068)	83,600	3.35
Banks (LOBO)	3,000	0	3,000	4.75
Local Authorities (short-term)	4,000	(4,000)	0	n/a
<b>Total borrowing</b>	<b>91,668</b>	<b>(5,068)</b>	<b>86,600</b>	<b>3.39</b>

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for

which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The Authority continues to hold £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first three quarters of 2017/18.

### Investment Activity

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first three quarters of 2017/18 the Authority's investment balance ranged between £63.4 and £72.4 million due to timing differences between income and expenditure. The investment position during the first three quarters of 2017/18 is shown in table 4 below.

**Table 4: Investment Position**

	<b>31.3.17 Balance £000</b>	<b>Movement £000</b>	<b>31.12.17 Balance £000</b>	<b>31.12.17 rate %</b>
Banks & Building Societies	51,919	(30,443)	21,476	0.16
Government (incl. local authorities)	4,910	4,500	9,410	0.84
Money Market Funds	9,527	(2,527)	7,000	0.31
Other Pooled Funds	0	18,000	18,000	4.5
<b>Total investments</b>	<b>66,356</b>	<b>(10,470)</b>	<b>55,886</b>	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Given the increasing risk and falling returns from short-term unsecured bank investments, the Authority has further diversified into more secure and higher yielding asset classes. £18m that is available for longer-term investment has now moved from bank and building society deposits into pooled investment funds. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 5 below.

**Table 5: Investment Benchmarking**

	<b>Credit Score</b>	<b>Credit Rating</b>	<b>Bail-in Exposure</b>	<b>WAM* (days)</b>	<b>Rate of Return</b>
31.03.2017	4.30	AA-	60%	47	0.61%
30.06.2017	4.26	AA-	65%	72	0.37%
30.09.2017	4.61	A+	63%	71	0.15%
31.12.2017	4.73	A+	75%	55	0.87%
<b>Similar LAs</b>	<b>4.47</b>	<b>AA-</b>	<b>63%</b>	<b>92</b>	<b>1.37%</b>
<b>All LAs</b>	<b>4.51</b>	<b>A+</b>	<b>61%</b>	<b>41</b>	<b>1.14%</b>

## Performance Report

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Forecast for Year £000	Budget £000	Over/under	Forecast %	Benchmark* %	Over/under
Interest Received	552	305	247	0.65	0.40	0.25
Interest Payable	2,953	2,953	0	3.39	3.39	0

\*3 month LIBID rate as at 31.12.17

Actual interest and dividends income for the nine-month period to December is £316k, which is better than the YTD budget of £229k, and has been achieved as a result of having a higher level of funds available for investment than budgeted, despite lower rates of return due to pressure on interest rates, as well as the two quarterly dividends from the £6m investment in the CCLA property fund (made in £3m tranches on 30<sup>th</sup> June and 31<sup>st</sup> July) at a return of approximately 4.57% p.a. (£125k received). This investment is considered longer term (typically 5 - 10 years) and largely accounts for the improved forecast position for the full year. The further investments in December 2017 of £6 million in the Colombia Threadneedle strategic bond fund and £6 million in the Investec diversified income fund are forecast to generate an annual return exceeding 4% (£23k est. receipt for December 2017 only). These longer term investments will significantly improve the overall return for the Council.

## Compliance Report

The Director of Finance is pleased to report that all treasury management activities undertaken during quarter three of 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Table 7: Investment Limits

	Qtr to 31.12.17 Actual	2017/18 Limit	Complied
Any single organisation, except UK Government	£7.8m	£8m per bank	✓
Any group of funds under the same management	0	£16m per group	✓
Investments held in a broker's nominee account	0	£15m	✓
UK Central Government	£1.9m	Unlimited	✓
Pooled Investment funds	£6m per fund	£10m per fund	✓
Unsecured investments with Building Societies	0	£8m	✓
Operating Bank	£18m	£20m	✓
Money Market Funds	£6.5m	£10m per fund	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

**Table 8: Debt Limits**

	31.12.17 Actual	2017/18 Operational Boundary	2017/18 Authorised Limit	Complied
Borrowing	£86.6m	£333m	£338.5m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

### **Treasury Management Indicators**

The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.12.17 Actual	2017/18 Target	Complied
Portfolio average credit score	4.73	6.0	✓

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing excluding deposits due back < 3 months.

	31.12.17 Actual	2017/18 Target	Complied
Total cash available within 3 months	£13m	£8m	✓

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed was:

	31.12.17 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£86.6m	£300m	✓
Upper limit on variable interest rate exposure	0	£90m	✓

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.12.17 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	£1.1m	25%	0%	✓
12 months and within 24 months	£3.4m	50%	0%	✓
24 months and within 5 years	£7.2m	50%	0%	✓
5 years and within 10 years	£13.7m	100%	0%	✓
10 years and above	£61.2m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment

**Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£1.9m	£1.9m	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied	✓	✓	✓

### Outlook for the remainder of 2017/18

The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Both consumer and business confidence remain subdued. Household consumption growth, the driver of UK GDP growth, has softened following a contraction in real wages. Savings rates are relatively low and real earnings growth (i.e. after inflation) struggles in the face of higher inflation.

The Bank of England's Monetary Policy Committee's decision to raise bank rate is likely to reduce inflation, all other things remaining equal, but is likely to have negative effect on what was already a weak growth outlook.

Arlingclose's central case is for Bank Rate to remain at 0.50% over the forecast period, whilst introducing upside risks from September 2018, as shown below, and downside risks from March 2019. Arlingclose's central case is for gilt yields to remain broadly stable across the medium term.

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
<b>Arlingclose Central Case</b>	<b>0.50</b>												
Downside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25

**In-house as at 31/12/17**

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	1.25%	950,000		
United Kingdom	Gilt		11/06/2013	22/07/2018	1.25%	960,000		
						<b>1,910,000</b>		
<b><u>In-house Investments - Portfolio:</u></b>								
<b>Duration</b>								
Birmingham City Council	Fixed term deposit		28/04/2017	27/04/2018	0.70%	7,500,000	UK - Gov 'AA'	364 days
HSBC (Evergreen)	Notice Savings Account	AA-/F1+/1	26/02/2016		0.28%	7,541,208	UK - Gov 'AA'	90 days notice required to withdraw funds
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.40%	7,896,892	UK - Gov 'AA'	95 days notice required to withdraw funds
<b><u>In-house investments - Long Term</u></b>								
CCLA Property investment Fund			30/06/2017		4.36%	3,000,000	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund			31/07/2017		4.37%	3,000,000	UK - Gov 'AA'	5 Years +
Investec Multi Asset Fund			15/12/2017		4.57%	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.42%	6,000,000	UK - Gov 'AA'	5 Years +

**40,938,100**

**Total Portfolio**

**42,848,100**

**Cashflow:**

**Call Accounts/MMF (as at 31/12/17)**

**Rate**

Global Treasury Fund (Goldman Sachs Money Market Fund)	500,106	0.29%
Standard Life Investments (Money Market Fund)	6,500,000	0.33%
Natwest SIBA	3,002,571	0.15%
Natwest SIBA - SEEDA (DTIZ)	0	0.01%
Natwest SIBA - EP (HCA)	0	0.01%
Natwest SIBA - ASDA	0	0.01%
Santander	502	0.00%
Bank of Scotland	3,000,756	0.40%
HSBC Business Acc	0	0.00%
Barclays	34,137	0.00%

**Total Cash flow**

**13,038,071**

**Total Portfolio and Cashflow**

**55,886,172**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-17	Interest Rate %	Principal To Be Repaid 2017/18	Principal Balance 31-Dec-17	Annual Interest 2017/18	Lender	Type of loan
Fixed	02/10/1997	02/10/2057	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/1997	28/05/2057	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/1946	23/06/2026	JUNE-DEC	131582	424	2.50	45	379	11	PWLB	Equal Instalment of Principal (EIP)
Fixed	27/09/1946	27/06/2026	JUNE-DEC	131583	79	2.50	8	71	2	PWLB	Equal Instalment of Principal (EIP)
Fixed	16/11/2001	30/09/2026	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Variable	16/12/2002	16/12/2042	JUNE-DEC	N/A	3,000,000	4.75		3,000,000	142,500	KA Finanz AG Bank	Repayable if called by Bank
Fixed	26/03/2012	26/03/2042	SEPT-MAR	499853	80,667,894	3.18	2,153,554	79,599,610	2,548,253	PWLB	Annuity
Fixed	22/03/2017	21/04/2017	APR	N/A	4,000,000	0.40	4,000,000	0	921	South Holland D.C.	Short term loan only (cash flow)
					<b>91,668,397</b>		<b>6,153,607</b>	<b>86,600,060</b>	<b>2,954,186</b>		<i>Sub-total</i>
Fixed	01/05/2012	01/11/2027	MAY-NOV		87,096	0.00	8,710	82,741	0	Lawn Tennis Association	Interest free
					<b>91,755,493</b>		<b>6,162,317</b>	<b>86,682,801</b>	<b>2,954,186</b>		

**In-house as at 31/01/18**

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		
						<u>1,910,000</u>		

**In-house Investments - Portfolio:**

***Duration***

Birmingham City Council	Fixed term deposit		28/04/2017	27/04/2018	0.700	7,500,000	UK - Gov 'AA'	364 days
Santander	Notice Savings Account	A/F1/2	02/04/2016		0.400	7,896,892	UK - Gov 'AA'	95 days notice required to withdraw funds

**In-house investments - Long Term**

CCLA Property investment Fund			30/06/2017		4.360	3,000,000	UK - Gov 'AA'	5 Years +
CCLA Property investment Fund			31/07/2017		4.370	3,000,000	UK - Gov 'AA'	5 Years +
Investec Multi Asset Fund			15/12/2017		4.570	6,000,000	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund			15/12/2017		4.420	6,000,000	UK - Gov 'AA'	5 Years +

33,396,892

**Total Portfolio**

35,306,892

**Cashflow:**

**Call Accounts/MMF (as at 31/1/18)**

**Rate**

Global Treasury Fund (Goldman Sachs Money Market Fund)	500,106	0.29%
Standard Life Investments (Money Market Fund)	6,500,000	0.33%
Natwest SIBA	13,561,912	0.15%
Santander	502	0.05%
Bank of Scotland (BOS)	3,001,809	0.40%
HSBC Business Acc	0	0.00%
Barclays	34,155	0.00%

**Total Cash flow**

23,598,483

**Total Portfolio and Cashflow**

58,905,375

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**Subject:** ANNUAL GOVERNANCE ASSURANCE STATEMENT – ACTION PLAN UPDATE

**Meeting and Date:** Governance Committee – 8 March 2018

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

**Classification:** UNRESTRICTED

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**Purpose of the report:** To update the Governance Committee on progress with the Annual Governance Assurance Statement action plan.

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**Recommendation:** That the report be noted

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**1. Introduction and Background**

1.1 The Annual Governance assurance statement contains a list of actions which need to be completed during the year. This report contains a list of progress to date.

**2. Identification of Options**

2.1 Option 1 - Committee accept and note the update report.

2.2 Option 2 - The report is not accepted

**3. Evaluation of Options**

3.1 Option 1 is the preferred option as it provides an update on progress against agreed governance actions.

**4. Resource Implications**

No new resource implications.

**5. Appendix 1**

**6. Background Papers**

Annual Governance Assurance Statement 2017/8

**Contact Officer:** David Randall, Director of Governance and Monitoring Officer, ext. 2141

### Governance Assurance Statement Action Plan – Update

Action Description	Evidenced by	At 1 March 18
The corporate plan to be been kept up to date and any necessary update is published	Corporate plan is up to date and published on the website	Yes - Full review after 2019 elections
The Constitution and Code of Conduct are subject to an annual review and updated where applicable	The constitution has been reviewed and changes and amendments are agreed by the Governance Committee and Council	Completed for 2017/18 Report to Governance Committee on 8 March 2018
Business Plans prepared and published for each division	Business plans for the forthcoming year completed and returned to Corporate Services.	2018/19 Business Plans are currently being completed by each service
Quarterly performance reports all reviewed by Cabinet and Scrutiny.	Performance reports published on the website.	Yes published on the DDC website – Performance Monitoring
	Performance reports reviewed by Cabinet and Scrutiny as per minutes published on the Website.	Q1 to Q3 for 2017/18 have been considered by Cabinet and Scrutiny (P&P)
Audit reports reviewed quarterly by Governance Committee and follow up reviews undertaken where the audit review show the expected levels of assurance had not been achieved.	Agreed high risk recommendations following audit reviews are followed up in a timely manner by management	Yes. One high risk recommendation was reported as outstanding by EKAP on 7 December 2017. This related to Garden Waste and Recycling Income being reconciled. Budget monitoring is carried out quarterly but the audit follow up found that it wasn't reconciled at the end of quarter 1, this was due to be completed at the end of quarter 2.
	Quarterly audit reports covering audit reviews and follow up reviews are received by Governance Committee	Yes. Received each quarter by the Governance Committee in 2017/18
Governance Committee have received reports on the progress of formal service complaints against the Council and lessons learned from those complaints.	Governance committee review progress on all formal service complaints at least half yearly. Reports published on website.	Yes. Report to Governance Committee on 8 March 2018.

Action Description	Evidenced by	At 1 March 18
Alleged breaches of the Members' Code of Conduct by District, Town and Parish Councillors are considered by the Monitoring Officer in a timely manner.	Breaches of the Member Code of Conduct have been considered by the Monitoring Officer throughout the year.	Yes. All complaints are considered by the Monitoring Officer in a timely manner
Audit undertake their annual review of the effectiveness of systems of internal control.	Audit have completed their annual review of the system of internal control and the results are built in to their annual report	Yes, Report included as part of the Annual Internal Audit Report to Governance Committee on 29 June 2017
Governance Framework reviewed and any amendments approved.	All amendments approved by the Governance Committee and Council.	No changes to the Corporate Governance Local Code since its adoption by Governance Committee on 29 June 2017 and Council on 19 July 2017
The provision for clawback of MMI insurance claims is reviewed and is adequate.	MMI provision is as per the MMI annual statement	Provision remains adequate.
Officer Training Plan Developed	<p>Corporate Training Needs agreed and training plan delivered.</p> <p>ILM Training delivered for middle and senior management</p> <p>Induction Training for new starters.</p>	<p>A detailed Corporate Training Plan was produced for 2017/18 and a updated plan for 2018/19 is being developed alongside a detailed review of the Council's workforce strategy and succession planning.</p> <p>Institute of Learning and Management levels 3 and 5 – training delivered. 10 staff have attained their award standard qualification, whilst the remaining students have recently submitted their coursework for the Spring 2018 assessment.</p> <p>Induction training continues to be delivered for all new starters.</p>

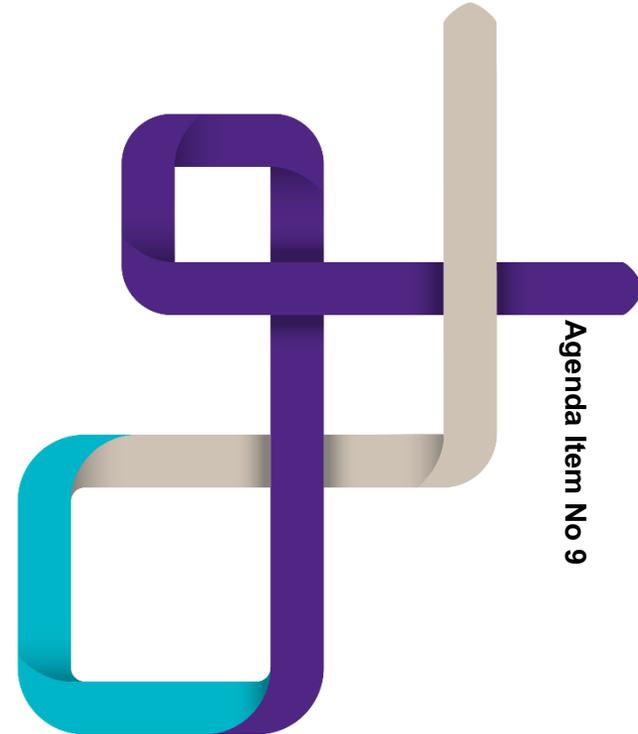
Action Description	Evidenced by	At 1 March 18
Corporate Information Governance	Periodic review of the corporate information and security governance framework and policies for East Kent.	The East Kent Information Governance Group continues to meet quarterly and reviews recent incidents and as and when required makes suggested changes to enhance the corporate information governance and security framework
Apprenticeship Levy	Compliance with the new Government requirements, including procurement of appropriate training for new apprentices.	The Council is registered with GOV.UK and has procured the relevant training and is managing and developing its 7 apprentices.

# External Audit Plan

*Year ending 31 March 2018*

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Dover District Council  
8 March 2018



Agenda Item No 9

# Contents



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10. Early close	[x]
10. Independence & non-audit services	[x]

## Appendices

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

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# Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Dover District Council ('the Council') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Dover District Council. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Governance Committee of your 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.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

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## Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of property, plant and equipment
- Valuation of the net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

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## Materiality

We have determined planning materiality to be £1.6m (PY £1.6m), which is based on 2% of your gross service expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.08m (PY £0.08m).

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## Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Budget position and medium term financial planning

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## Audit logistics

Our interim visit has taken place in January and February 2018 and our final visit will take place in July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £53,685 (PY: £53,685) for the Council.

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## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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# Deep business understanding

## Changes to service delivery

### Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new was published in December 2017.

### Transfer of revenue and benefits services

Along with Canterbury City Council and Thanet District Council, you have entered into a strategic partnership with Civica for delivery of revenues, benefits and customer services functions. This is expected by your officers to deliver cost savings while maintaining the quality of service.

This represents a key change in service delivery and it is key that your governance arrangements allow appropriate oversight and contract management of the new arrangements.

## Changes to financial reporting requirements

### Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

### Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

### Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

## Key challenges and opportunities

### Financial pressures

In common with all local authorities nationally, you continue to face a challenging financial settlement going forward, with Revenue Support Grant forecast to reduce by 45% to a £0.6m in 2018/19 and to virtually nil by 2019/20

The draft General Fund and HRA budget presented to the 5th February 2018 meeting of the Cabinet forecast a balanced General Fund through to 2020/21 with a gap of circa £0.8m in 2021/22 that needs to be met through savings or additional income. This highlights the ongoing importance of ensuring the delivery of budgeted savings.

### Business rates pilot

In September 2017, the government launched a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018/19. Kent councils worked together to submit a bid proposing 70% of the monies being retained to support financial sustainability of the authorities involved and 30% being used to fund future growth initiatives. It was announced in December 2017 that Kent will be one of the 10 new pilots. The retained monies will be distributed to each authority on the basis of their population and growth.

## Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

# Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <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; and</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> <p>Therefore we do not consider this to be a significant risk for Dover District Council.</p>
<b>Management over-ride of controls</b>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness;</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness; and</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>consider the competence, expertise and objectivity of valuation experts used by management;</li> <li>discuss with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions;</li> <li>review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>testing revaluations made during the year to ensure they are input correctly into the Council's asset register; and</li> <li>evaluate the assumptions made by management for those assets not revalued during the year and verify how management have satisfied themselves that these are not materially different to current value.</li> </ul>
<p><b>Valuation of pension fund net liability</b></p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>identify the controls put in place by management to ensure that the pension fund liability is not materially misstated; we will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; we will gain an understanding of the basis on which the valuation is carried out;</li> <li>undertake procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary.</li> </ul>

# Reasonably possible 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 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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Employee remuneration</b>	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; and</li> <li>• Testing of payroll expenditure for the year (either substantive testing or substantive analytical review, depending upon which approach has been determined the most efficient).</li> </ul>
<b>Operating expenses</b>	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of creditors as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness;</li> <li>• gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; and</li> <li>• testing of post-year end payments to test completeness of expenditure recorded in the financial statements.</li> </ul>

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# Other matters

## Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued 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 carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 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.

## 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 this report.

## 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) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

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# Materiality

## The concept of materiality

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. 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.

## Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1.6m (PY £1.6m), which equates to 2% of your gross expenditure as per the prior year audited accounts. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Separate materiality

Auditors are required to setting separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

- Cash and cash equivalents - £0.5 million

## Matters we will report to the Governance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.08m (PY £0.08m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance Committee to assist it in fulfilling its governance responsibilities.

# Value for Money arrangements

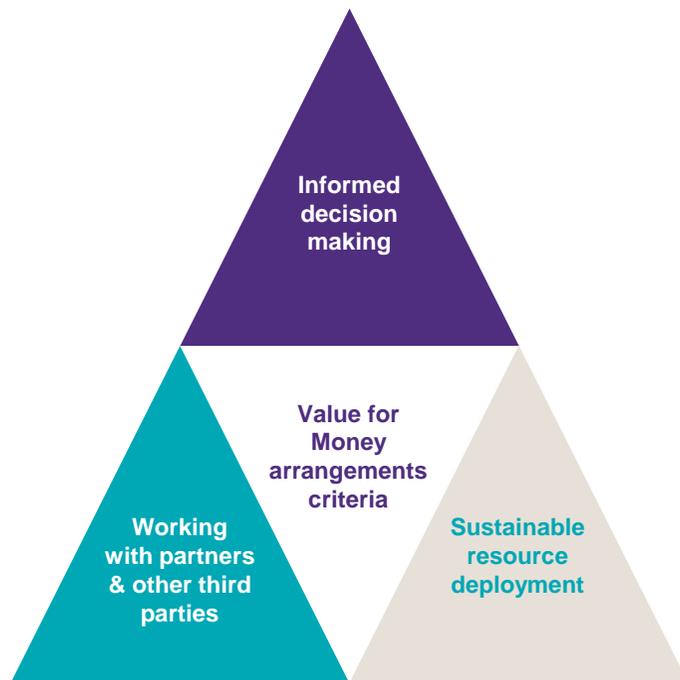
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. 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 below:



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## Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



### Budget position and medium term financial planning

The national local government settlement has placed further pressure on the Council's finances and the Council's medium financial plan includes the need for significant savings over the next few years. There is therefore a risk that the Council will not be able to achieve the forecast savings and continue to deliver a balanced budget over the medium term horizon.

We will review recent performance against the budget and consider the reasonableness of the assumptions upon which medium term financial planning has been based. We will also review the Council's plans to deliver savings over the period covered by the medium term financial plan.

# Audit logistics, team & audit fees



## Audit fees

The planned audit fees are no less than £53,685 (PY: £53,685) for the financial statements audit and £16,558 (PY: £38,224) for 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 (PSAA) in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. The reduction in the grant certification scale fee for 2017/18 is because PSAA set the fee based upon the level of additional benefits testing required in 2015/16.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

## Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

# Early close

## Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

## Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

# Independence & non-audit services

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

## Non-audit services

The following non-audit services were identified:

Service	Fees £	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	£1,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,500 in comparison to the total fee for the audit of £53,685 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
No such services are provided.			

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. These services are consistent with the Council's policy on the allotment of non-audit work to your. Any changes and full details of all fees charged for audit related and non-audit related 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.

None of the services provided are subject to contingent fees.

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# Appendices

## A. Revised ISAs

# Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

<b>Section of the auditor's report</b>	<b>Description of the requirements</b>
<b>Conclusions relating to going concern</b>	We will be required to conclude and report whether: <ul style="list-style-type: none"><li>• The directors use of the going concern basis of accounting is appropriate</li><li>• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.</li></ul>
<b>Material uncertainty related to going concern</b>	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
<b>Other information</b>	We will be required to include a section on other information which includes: <ul style="list-style-type: none"><li>• Responsibilities of management and auditors regarding other information</li><li>• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation</li><li>• Reporting inconsistencies or misstatements where identified</li></ul>
<b>Additional responsibilities for directors and the auditor</b>	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
<b>Format of the report</b>	The opinion section appears first followed by the basis of opinion section.



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<b>Subject:</b>	<b>ANNUAL COMPLAINTS REPORT</b>
<b>Meeting and Date:</b>	<b>Governance Committee – 8 March 2018</b>
<b>Report of:</b>	<b>David Randall, Director of Governance</b>
<b>Decision Type:</b>	<b>Non-Key</b>
<b>Classification:</b>	<b>Unrestricted</b>

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**Purpose of the report:** This report documents the number of complaints dealt with through the corporate complaints process for the previous and current financial years.

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**Recommendation:** That the report be noted.

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**1. Summary**

This report highlights the number of complaints received for each service provided by the Council for the previous and current financial years, and indicates where the number has risen or decreased.

**2. Introduction and Background**

- 2.1 The Council has a two stage corporate complaints process. The first stage is for the relevant department to respond. If the complainant remains dissatisfied they can request a stage 2 review by Corporate Services. The Local Government & Social Care Ombudsman provides an independent free service for the public if they are unhappy with the way in which a local authority (not town or parish council) has dealt with an issue. The Ombudsman would normally require the matter to have been through the Council's complaints process first.
- 2.2 In the 2017/18 financial year, a number of complaints have led to personal training requirements being identified in the Council Tax, Benefits and Customer Service areas.
- 2.3 Three complaints in respect of Waste Services have led to new processes being agreed and documented regarding hazardous waste and abandoned vehicles and the web page being amended for missed bins.
- 2.4 A complaint highlighted the fact that information on the Council's website regarding disabled parking bays required clarification and has been updated.
- 2.5 No complaints were upheld by the Local Government & Social Care Ombudsman against Dover District Council for the 2016/17 financial year.

**3. Resource Implications**

- 3.1 None.

**4. Appendices**

Appendix 1 – Summary of complaints received during 2016/17 and 2017/18 (to date).

5. **Background Papers**

File C23/5 – Complaints

Contact Officer: Sue Carr, Corporate Services Officer

### Summary of complaints received during 2016/17 and 2017/18 (to date)

Service	1 April 2016 to 31 March 2017				1 April 2017 to 29 February 2018				Increase/ Decrease
	Stage 1	Stage 2	LGO	Total	Stage 1	Stage 2	LGO	Total	
Anti-Social Behaviour				0	1	1		2	+2
Building Control	1	1		2				0	-2
Benefits – Housing & C.Tax	6	1		7	8	3		11	+4
Community Services	1		1	2				0	-2
Council Tax	26	1		27	23	2	1	26	-1
Customer Services	7			7	6			6	-1
Environmental Health	1	1	2	4	2	4	0	6	+2
Env Health - FPNs				0	2	1	2	5	+5
Env Health - Licensing	2			2	2	1		3	+1
Governance						1		1	+1
Housing Options	3	2		5	3	3		6	+1
Parks and Open Spaces		1	1	2		1		1	-1
Parking Services	6	5	2	13	2	4		6	-7
Private Sector Housing		1		1	1	2		3	+2
Planning	1	5	2	8	1	6	1	8	0
Planning - enforcement		1		1	3	3	1	7	+6
Property Services	3	3		6	4	2		6	0
Regeneration				0	1			1	+1
Revenues	2			2				0	-2
Waste Services	13	1		14	13	2		15	+1
<b>Total</b>	<b>72</b>	<b>23</b>	<b>8</b>	<b>103</b>	<b>72</b>	<b>36</b>	<b>5</b>	<b>113</b>	<b>+10</b>

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<b>Subject:</b>	<b>REVIEW OF THE CONSTITUTION 2018 – TRAINING AND DEVELOPMENT FOR MEMBERS</b>
<b>Meeting and Date:</b>	<b>Governance Committee – 8 March 2018</b> <b>Council – 23 May 2018</b>
<b>Report of:</b>	<b>David Randall, Director of Governance (Monitoring Officer)</b>
<b>Classification:</b>	<b>UNRESTRICTED</b>

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**Purpose of the report:** Article 15 of the Constitution requires the Monitoring Officer to conduct regular reviews of the Constitution. As part of the 2017/18 review changes are proposed to Part 2 – Articles of the Constitution, Article 13 – Decision Making Appendix B to E (Training Criteria for various committees).

Article 15, paragraph 15.02 (a) requires that amendments to the Constitution will only be approved by Council (or its committees) after consideration of the proposal by the Governance Committee.

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**Recommendation:**

**Governance Committee:** That it be recommend to Council that the proposed changes as part of the 2017/2018 Review of the Constitution relating to Part 2 – Articles of the Constitution, specifically Article 13 – Decision Making Appendix B to E (Training Criteria for various committees) as detailed at para 2.1 of this report be approved and incorporated into the Council's Constitution, issue no. 21.

Amendments to Article 13 Appendix D are approved as shown at Annex 1 to this report and the Director of Governance and Monitoring Officer is authorised to make any associated incidental changes to the Constitution.

**Council:**

That the proposed changes as part of the 2017/2018 Review of the Constitution relating to Part 2 – Articles of the Constitution, specifically Article 13 – Decision Making Appendix B to E (Training Criteria for various committees) as detailed at para 2.1 of this report be approved and incorporated into the Council's Constitution, issue no. 21.

Amendments to Article 13 Appendix D are approved as shown at Annex 1 to this report and the Director of Governance and Monitoring Officer is authorised to make any associated incidental changes to the Constitution.

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**1. Introduction and Background**

1.1 Article 15 of the Council's Constitution makes provision for the regular review of the Constitution by the Monitoring Officer on an annual and ad-hoc basis. As part of the 2017/18 review, changes are proposed to the training requirements to serve on the following committees as detailed in Article 13

- (i) Licensing Committee – Appendix B
- (ii) Regulatory Committee – Appendix C
- (iii) Governance Committee – Appendix D
- (iv) Planning Committee – Appendix E

1.2 Part 2, Article 13 Decision Making. para 13.09 states that:

“Only members (and substitutes) who have received the appropriate training may serve on Appeals, the Licensing, Regulatory, Governance, Planning and Standards Committee”. The training requirements are set out in the Appendix to the article

1.3 Appendices B to E, all have the same current requirement as to **when** the training must take place, each states that:

“At the start of the new 4 year Council and as required, if membership changes or substitutes require training, co-ordinated in advance of the next committee meeting”.

## 2. Proposed Change

2.1 The proposal is to extend the **when** requirement to read as follows (the proposed change is highlighted in italics):

At the start of the new 4 year Council and *thereafter* as required, *but not less than once in each subsequent council year*, and if membership changes or substitutes require training, co-ordinated in advance of the next committee meeting.

2.2 The reason for this proposal is to ensure that the skills knowledge and experience of members gained through initial training and subsequent work on the committee is maintained, developed and updated and that skills and learning do not become out of date. This is to help ensure members to continue to discharge their roles effectively in accordance with up to date law and practice.

2.3 It is recognising that one learning style does not fit the needs of everyone, therefore where possible the training provided could include a combination of different methodologies to learning and development. This could include training workshops, conferences, events, e-learning programmes, best practice techniques and idea sharing.

2.4 These different learning styles are all focused to assisting the individual member to further develop their knowledge and skills

2.5 No change is proposed to Article 13, Appendix A - Training Criteria for General Purposes Committee. The training is primarily aimed at preparing the committee for its role as an appeals panel. The committee sits as an appeals panel very rarely and specific training will be provided to members as and when required to fulfil this role.

### 3. **Other Related Issues**

- 3.1 As the Council no longer operates a separate Standards Committee and its functions are now performed by the Governance Committee, Article 13 Appendix F is no longer required. However the requirements from Appendix F need to be incorporated into an enhanced Appendix D, as shown at Annex 1 to this report. Reference to the Standards Committee will also be removed from Para 13.09 of Article 13.

### 4. **Approval of Amendments to the Constitution**

- 4.1 The detail of the proposed changes are set out below:

- (a) **Part 2, Article 13 Decision Making.** Changes to Appendices B to E. Each appendices covers the training criteria for a different committee:
- (i) Appendix B – Licensing Committee – amend “when”, training frequency
  - (ii) Appendix C – Regulatory Committee – amend “when”, training frequency
  - (iii) Appendix D – Governance Committee – amend “when”, training frequency and the content
  - (iv) Appendix E – Planning Committee – amend “when” training frequency
  - (v) Appendix F – Standards Committee - delete

### 5. **Identification of Options**

- 5.1 Option 1 - To approve the changes proposed as part of the 2017/18 Review of the Constitution as submitted.
- 5.2 Option 2 – To not approve the changes as part of the 2017/18 Review of the Constitution as submitted.
- 5.3 Option 3 – To amend the training and development requirements as part of Article 13 in some other way

### 6. **Evaluation of Options**

- 6.1 Option 1 is the preferred option. A structured practical and methodical approach to learning helps develop skills and knowledge. It also help ensure that skills and learning do not become out of date or obsolete allowing councillors to continually upskill and reskill themselves, in turn it supports the efficient operation of the authority. .
- 6.2 Option 2 is not the preferred option as it will not support the further development of members.
- 6.3 Option 3 is a possible way forward, although it will be difficult for the Governance Committee or the Council to make any significant changes to the proposals at their

meeting. Should members be minded to pursue this option, it would be helpful if they could discuss with the Director of Governance and Monitoring Officer their proposal to enable a further or amended report to be presented to a future meeting of the Governance Committee and the Council.

7. **Resource Implications**

There is potentially a small training budget implications arising from this proposal.

8. **Annex**

Annex 1 – Part 2, Article 13 Decision Making. Changes to Appendices D

9. **Background Papers**

Draft Constitution of the Council (Version 21).

Local Government Act 2000 and the regulations made under that Act.

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## Article 13 Appendix D

### Training Criteria for the Governance Committee

**Constitution:** Part 3, Responsibility for Functions, Section 2, Responsibility for Council Functions

**Training provider:** In-house by the Monitoring Officer and/or S151 Officer

**When:** At the start of the new 4 year Council and thereafter as required, but not less than once in each subsequent council year, and if membership changes or substitutes require training, co-ordinated in advance of the next committee meeting

**Content:**

1. To understand the functions of the Governance Committee.
2. To understand the role individual councillors fulfil on the committee, in particular in relation to exercising their functions in relation to ethical standards and the member code of conduct.
3. To understand the role and work of internal audit, including the audit plan, audit assurance levels, risks and controls, audit reports and audit recommendations.
- 4 To understand the role of management in agreeing, accepting and then implementing audit recommendations.
5. To understand the role and work of external audit.
6. To understand risk management arrangements including risk assessment and risk mitigation.
7. To understand the Annual Governance Assurance Statement process and the monitoring and follow up actions.
8. To understand the Council's financial management and reporting process, in particular an understanding of the Statement of Accounts.
- 9.To understand the standards regime for the conduct of members under the Localism Act 2011 and local codes of member conduct.
- 10.To understand the arrangements made by the Council for dealing with complaints under the Localism Act 2011
11. To understand the role and responsibilities of the Monitoring Officer.
12. To understand the role of the Independent Person.
- 13.To understand the formal service complaints procedures, the role of the Local Government Ombudsman and the issues relating to maladministration.

**Period:** For the four year term of the Council or any part of this period.