



Audit Committee

Notice of a meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane, Ashford, Kent TN23 1PL on Tuesday 14th December 2010 at 7.00 pm

The Members of this Committee are:-

Cllr. Wallace (Chairman)

Cllr. Ellison (Vice-Chairman)

Cllrs. Feacey, Koowaree, Mrs Laughton, Link, Smith, Taylor

Portfolio Holder: Cllr. Wood

NB: Under the Council's Public Participation Scheme, members of the public can submit a petition to the Executive if the issue is within its terms of reference or ask a question or speak concerning any item contained on this Agenda (Procedure Rule 9 refers)

Agenda

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Nos.

1. **Apologies/Substitutes** – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)
2. **Declarations of Interest** - Declarations of Interest under the Code of Conduct adopted by the Council on the 24th May 2007 relating to items on this agenda should be made here. The nature as well as the existence of any such interest must also be declared
3. **Minutes** – To approve the Minutes of the Meeting of this Committee held on the 27th September 2010

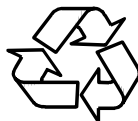
Part I – For Decision

4. Closure of the 2007/08 – 2009/10 Audits
5. Review of Audit Committee by LGID

Part II – Monitoring/Information Items

6. Annual Audit Letter 2009/2010
7. Annual Governance Statement – Progress on Remedying Exceptions
8. Ashford Growth Agenda – Strategic Risks
9. Report Tracker and Future Meetings

Queries concerning this agenda? Please contact Danny Sheppard:
Telephone: 01233 330349 Email: danny.sheppard@ashford.gov.uk
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Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **27th September 2010**

Present:

Cllr. Wallace (Chairman);
Cllr. Ellison (Vice-Chairman);
Cllrs. Davison, Feacey, Holland, Koowaree, Link, Taylor

In accordance with Procedure Rule 1.2 (iii) Councillors Davison and Holland attended as Substitute Members Councillors Mrs Laughton and Smith respectively.

Apologies:

Cllrs. Mrs Laughton, Smith.

Also Present:

Cllr. Wood

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Manager, Finance Manager, Investigation & Visiting Manager, Support Manager (Revenues & Benefits), Performance & Improvement Officer, Senior Member Services & Scrutiny Support Officer.

Andy Mack, Debbie Moorhouse, Kevin Long – Audit Commission.

184 Declarations of Interest

Councillor	Interest	Minute No.
Wallace	Code of Conduct – Personal but not Prejudicial – Council appointed representative on the Ashford Leisure Trust	188

185 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 29th June 2010 be approved and confirmed as a correct record.

186 2009/10 Accounts and the External Auditor's Annual Governance Report

The report presented the District Auditor's Annual Governance Report. The audit had identified some errors that had now been corrected hence the Statement of Accounts was fully re-presented to the Committee. The adjustments were of a 'classification' nature or changes to 'disclosure notes' so there were no implications for the overall financial position or standing of the Council. The District Auditor had therefore issued an unqualified opinion on the Accounts and Andy Mack was present to introduce the report and take questions. There was a Post Balance Sheet Event that had arisen from the Coalition Government's Emergency Budget announcing a review of public sector pension schemes. A note had been included to explain this and its possible impacts. There were no adjustments to the accounts that flowed from this disclosure. A revised table for Note 3 of the Statement of Accounts had also been tabled for Members' attention.

Andy Mack said that from the Audit Commission's point of view, this was an extremely positive report and represented significant improvement for the Council this year. He ran through the amendments to the draft accounts and the unadjusted misstatements in the accounts which were minor in nature and did not merit special attention. The single most complex issue had been the adoption of International Financial Reporting Standards (IFRS) for PFI Accounting as this had come in a year earlier than the rest of IFRS and was something that most other Councils had not had to deal with. The impact of this was complex and the Council had dealt with this well and it bode well for the full introduction of IFRS next year. The amendments that were needed would not have a major impact, but did have to be reported.

The Finance Manager said that he and his team were very pleased with the outcome of the audit and very few amendments had been needed. The majority surrounded the need to re-value all fixed assets, which was a tricky job and one that the Council had generally got right.

The Committee then ran through the Appendices to the report and the following responses were given to questions/comments: -

- It was clear that the Council's 'direction of travel' with regard to the Accounts was positive and there were signs of continuous improvement. In terms of next year, all Districts would need to look at the presentation of their Accounts with regards to IFRS requirements, but there was confidence that Ashford was on target. A 'wash up' meeting had been arranged between the External Auditors and the Finance Manager and his team, and it may be useful to report back to the Committee following that meeting, to start the process for next year. This was agreed for the December meeting.
- Related Party Transaction return forms had still not been received from three Councillors and one Officer. The Committee agreed that a letter should be sent to the three Members from the Chairman of this Committee urging them to return their forms.

- The Post Balance Sheet Event related to the announcement of a comprehensive review of Public Sector Pensions including the Local Government Pension Scheme. It had been announced that from April 2011 public sector pension increases would be based on the Consumer Price Index instead of the Retail Price Index. This change had been deemed a non adjusting post balance sheet event, which would have the effect of reducing the value of the Council's pension liabilities.

At this point of the meeting Andy Mack updated on the current position with the Government's proposals to abolish the Audit Commission. These comments will be included under the Agenda item "Audit Commission" detailed later in these Minutes.

Resolved:

- That**
- (i) the District Auditor's Annual Governance Report be received and noted.**
 - (ii) the Post Balance Sheet Event be noted.**
 - (iii) the amended Statement of Accounts for 2009/10 be approved.**
 - (iv) the Chief Financial Officer's Letter of Representation to the District Auditor be approved.**
 - (v) a letter be sent by the Chairman on behalf of the Committee urging the three Members who had yet to return their Related Party Transaction forms to do so as soon as possible.**

187 Benefit Fraud Annual Report 2009/10

The report provided a brief introduction to the work of the Benefit Fraud and Visiting Team and set out a summary of the Team's work for the financial year 2009/10. The Investigation & Visiting Manager said she wanted to particularly highlight the preventative work that had taken place and explained that this would continue into 2010/11 along with more work with the Community Safety Unit to get out into the community and educate people about the issues associated with benefit fraud. Shared Services with Shepway District Council would also be pursued during 2010/11. She said that the report was an annual update and would come back to this Committee every June.

The following responses were given to questions/comments: -

- Money was being used at the 'front end' to prevent fraud and stop as many overpayments as possible going into the system in the first place, rather than having to claim them back later. This was seen as a much better way of managing the Service and meant that Ashford had a low level of overpayments compared to neighbouring authorities. The Investigation & Visiting Manager endeavoured to circulate comparative figures to Committee Members to put this in context.

- Fraudulent overpayments were notoriously hard to collect and the Council was reliant on anonymous intelligence from members of the public. There was the problem that people perhaps did not want to “tell tales” on their neighbours, but this was being addressed through community and educational activity. The phone line was well publicised on the website, Ashford Voice, in press articles about successful prosecutions and, currently, on the back of parking tickets. The majority of successful referrals overall, stemmed from data matching through the National Fraud Initiative Exercise or the Housing Benefit Matching Service but intelligence from members of the public was essential.
- Most sentences following successful prosecutions were community punishments and the money was normally paid back. Although the Council could not publicise all of its sanctions, those cases which went to Court were highlighted publicly through the local press, both raising the profile of the Team’s work and sending out a deterrent message.
- Sub-letting was an issue but not at the level of London Boroughs. It was an issue the Team would be looking into with Housing and there was money available from the Government to generate some publicity about this issue.

Resolved:

That the content of the report be received and noted.

188 Internal Audit Operational Plan 2010/11

The report provided details of the work of the Internal Audit Team in the current financial year 2010/11.

In response to a question about how the new four-way partnership arrangement was working the Head of Internal Audit Partnership explained he was intending to submit a more detailed report on this to the Committee in December, however things were settling down well. The nature of being based over four sites had raised a number of issues around technology and Human Resources which had been challenging over the last six months, but they were now on course. The agreement to proceed had only been reached in February, so it had been a challenge to get everything in place to start on the 1st April.

In response to a question, it was explained that the audit of Grants to Outside Bodies had been delayed to 2010/11 at the request of the Head of Cultural Services. The new Grants Gateway had come into affect and was a very different approach to dealing with grants, so it had not been considered prudent to review an old system. It was very much a review of systems rather than accounting. Internal Audit did try hard to work with Managers and agree the timing of audits with them. It was mutually beneficial to find the best time for them in order to get the most out of an audit, but there was no question that audits would be cancelled at the request of Heads of Service.

With regard to the National Fraud Initiative, the biennial Audit Commission data matching exercise commencing in October 2010, the Council would handle a lot of

confidential data, but the Head of Internal Audit Partnership assured that procedures had been tightened up a lot and were as secure as they could possibly be. There was no way this data could go astray.

The Use of Consultants audit would deliberately have the widest scope and remit possible. It was important for the Council to know the overall numbers of consultants it was employing, the cost of this and if it was getting value for money.

Resolved:

That the Operational Internal Audit Plan for the current financial year, 2010/11, be noted.

189 Annual Governance Statement – Progress on Remediating Exceptions for 2009/10

The report provided Members with an update on the progress that had been made so far this year in remediating the governance exceptions in the Annual Governance Statement.

Resolved:

That the progress to date on resolving the governance exceptions identified in the 2009/10 Annual Governance Statement be noted.

190 Corporate Performance Report (Performance Compendium)

The report provided an updated summary to the Corporate Performance report first presented to the Executive in July. The Deputy Chief Executive explained that the intention of the report was to present Members with a single quarterly overview of corporate performance issues (including risk, audit reports, action plans etc) and any exceptions arising from those, along with an opportunity to bring to Members' attention any significant national policy issues likely to impact on the Council. With the coming adoption of the Council's Five Year Business Plan performance management arrangements were changing and the future structure of this report would be being examined. Officers would welcome feedback on what sort of content they would like to see going forward.

The Chairman said that looking forward and pre-empting risk would be just as important as looking at current performance. It was clear that there would continue to be ramifications for the Council arising from the current economic situation and he hoped Managers were already looking forward to see if they were going to be able to cope and were re-assessing risks. The Deputy Chief Executive said this was extremely relevant considering the Five Year Business Plan and the cutbacks and challenges that all Council departments would have to work with. There was concern that the economy may not recover as quickly as first hoped and in fact may go back into recession again, so issues such as the level of benefits claimants as well as the housing market could prove extremely problematic for the Council. Members and

Management Team would need to consider the management of risk very carefully and it may require a new approach which may have to also be reflected in the future make up of this report. It would be important to show in the clearest possible way that the Council was travelling in the right direction and that risks and challenges were recognised with action plans in place to deal with them.

The Portfolio Holder said he wished to flag up his comments in the report that a review of the Council's performance management systems was necessary and this would require input from Officers, Members and partners to avoid the pitfalls of the past such as the production of information for its own sake regardless of its usefulness. Both this Committee and the Overview & Scrutiny Committee in its Overview role would have a role to play in this.

The Chairman asked, given that this was the start of a review process, whether there were any particular comments at this stage. A Member said that lots of risks had been highlighted but not too much in the way of opportunities. As an optimist he hoped that going forward there may be able to be more emphasis on this in the report. The Chairman said he understood the point but it would be important to be honest about the direction of travel. This would be a point worth discussing when the structure of the report came back for more specific comments.

Resolved:

That the report be received and noted and a future discussion be held as to the usefulness of the new report format and any suggestions for improvement.

191 Section 106 Agreements – Developer Liabilities

The Head of Internal Audit Partnership introduced the report which stemmed from a discussion at last Meeting of the Committee about the current economic climate and the potential for developers going out of business and leaving the Council with liabilities. After discussions with the Council's Planning and Legal Teams it had been explained that the basis of a Section 106 Agreement was that, if development does not commence then there were no contributions payable. Once a development commenced, the obligations under the 106 become unconditional. Normally the obligations to either make contributions or carry out works were linked to specific trigger points which again were normally based on the number of dwellings occupied. Those trigger points were monitored and the developer reminded of its liability. If, in the course of a development, the developer went out of business then the terms of the 106 Agreement continued and any new developer who took on an agreed development also took on the obligations agreed with the original developer. Therefore the report asked Members to note that the Section 106 process was managed to ensure that the Council would not be financially liable in the event of a business failure by a developer.

Resolved:

That the report be received and noted.

192 The Audit Commission

The report advised that the Government had decided to abolish the Audit Commission.

Andy Mack said that whilst there were lots of details to work through the current position was that Government proposed to abolish the Audit Commission by the end of 2012. Therefore there would be two more years of the Commission auditing the Council and the Council would then have the option to go out into the market place to procure its own auditor. It was an uncertain time for Commission staff although one option that was being considered was to set up a company to compete in the private sector. More details would emerge over the coming months and Andy Mack pledged to keep Members updated at Audit Committee Meetings. He assured that whatever happened, the Commission would “keep its eye on the ball” to ensure a smooth transition and would maintain the high quality of audit work that the Council deserved and had become used to.

The Chairman said that the appointment process for a new external auditor could be quite complex. He hoped the Council would look more widely at this with other Local Authorities in Kent. They would all have the same issues and there may be opportunities for joint working/procurement. Andy Mack explained that a new external auditor would need to be in place for the end of the financial year 2012/13 so the procurement would probably need to get underway in the next 18 months. Partnership working with neighbouring Authorities seemed a sensible way forward.

Resolved:

That the decision of the Government to seek to abolish the Audit Commission be noted.

193 Report Tracker & Future Meetings

A Member said that in June 2009 he had raised the possibility that by May 2011 all of the current Committee Members may have not been returned in the Local Elections, thus losing all of the knowledge relevant to this Committee. At that time the possible appointment of an Independent Member to ensure continuity was mentioned and he asked what had happened to that suggestion. A skills and competency matrix for Committee Members and relevant training had also been mentioned. It was explained that these issues were discussed as part of the recent IDeA Peer Review and would be explored in the report back to the December Meeting of the Committee.

The Deputy Chief Executive said it was important to resurrect the programme of pre-Committee briefings. There were two meetings before the Elections so perhaps these could cover: - International Financial Reporting Standards; and an update on the Five Year Business Plan, Economic Position and Cuts Affecting Local Government. These would be added to the Future Meetings Tracker.

It was confirmed that the following extra items would be added to the Tracker for the next Meeting: -

- Statement of Accounts - Result of Wash up Meeting with Audit Commission and Starting Next Year's Accounts (Dealing with IFRS).
- Internal Audit Partnership – Update.
- Risk Management – Future Proposals.

Resolved:

That subject to the comments above, the report be received and noted.

Agenda Item No: 4

Report To: **AUDIT COMMITTEE**

Date: **14 DECEMBER 2010**

Report Title: **Closure of the 2007/08-2009/10 audits**

Report Author: Andy Mack, District Auditor
Paul Naylor, Deputy Chief Executive – covering summary



Summary: The attached report from the District Auditor explains that he has fully considered representations made by a local elector on past years accounts. He feels that the audits for these years can now be closed. Within the District Auditor's report he asks for a letter of representation to be drafted in respect of the accounts for the last financial year (a draft template letter from the District Auditor is included at Appendix 1). There are two matters to report to the District Auditor since the financial statements were approved and these are included in the Deputy Chief Executive's formal letter of representation attached as the annex to this covering summary. These matters relate to recent decisions in connection with Ashford's Future, and related party transactions.

Key Decision: No

Affected Wards: None specifically

Recommendations: **The Audit Committee is asked to note the District Auditor's report and to endorse the Deputy Chief Executive's letter of representation in the annex to this covering summary.**

Policy Overview: Although mainly a procedural matter, it is pleasing to note that the District Auditor can now close the outstanding audits.

Financial Implications: None directly arise from this report

Other Material Implications: None

Background Papers: Financial statements relating to 2007/08, 2008/09 and 2009/10

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Deputy Chief Executive, Paul Naylor CPFA MBA

Ask For: Paul Naylor
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Mr Andy Mack
Appointed Auditor
Audit Commission
16 South Park
Sevenoaks, Kent
TN13 1AN

Date: 15 December 2010

Dear Andy

Ashford Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Ashford Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. You will see, however, there are two areas where I draw to your attention to events since Financial Statements were presented.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatement

No further uncorrected misstatements have been identified other than those referred to in our letter dated 27 September 2010.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

ANNEX



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BOROUGH COUNCIL

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- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

I need to draw to your attention recent decisions by the Council to seek a winding-down of the Ashford Future Company Ltd. The nominal wind-down date agreed by partners and the Company Board is 31 March 2011. A full report was submitted to the Council's Executive Committee on 9 December 2010 setting out the context and plans to develop new arrangements for the delivery of growth in Ashford. As disclosed in the Financial Statements the Borough Council is guarantor to the Pension Fund for the Company and is also initially responsible for meeting

redundancy payments in respect of the Company's staff. There is an understanding across the Founding Members that termination costs will be met by the partnership. As agreed by the Ashford Future Partnership Board the termination costs will, therefore, be met from accumulated interest on Growth Area Funds held by the Borough Council on behalf of the Partnership. This accumulated interest stands at approximately £635,000 and is sufficient to meet all costs without requiring extra financial support from partners.

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no other material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no other financial guarantees have been given to third parties.

Related party transactions

At the time of the Financial Statements being approved I disclosed that three declarations from Members of the Council remained outstanding. One declaration was subsequently received and there are no matters of relevance to the accounts to report to you from that declaration. Two other declarations remained outstanding, including one from a councillor who unfortunately passed away recently.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.


I confirm there are no disclosures required in relation to the previous Chief Executive (David Hill) or Head of Financial Services (Pauline Adams).

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Yours sincerely



Paul Naylor

Deputy Chief Executive

15 December 2010

Signed on behalf of Ashford Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 14 December 2010.

Closure of the 2007/08 - 2009/10 audits

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

Background

- 1** In my audit opinion dated 29 September 2010, I reported that I was unable to conclude the 2009/10 audit and issue a certificate until I had considered a matter brought to my attention by a local authority elector.
- 2** This issue dates back to 2007/08 and is in respect of the cost of work on the Stour Leisure Centre. The elector requested that I issue a Report in the Public Interest under section 8 of the Audit Commission Act 1998.
- 3** Having now considered the issue fully, and received representations from both the Council and the local elector, I do not feel it would be appropriate for me to issue a Report in the Public Interest. I therefore now intend to close the audits for the years 2007/08 - 2009/10.

Next steps

- 4** To conclude the audit I am required to satisfy myself that there are no significant post balance sheet events which impact materially on the accounts for the last three years.
- 5** To assist me with this I would be grateful for your signed letter of representation. I have attached a draft letter for you to consider in Appendix 1. In Appendix 2 I have attached the proposed wording of the opinion and certificates for each of 2008/09 to 2010/11.

Appendix 1 - Draft letter of representation

To: Andy Mack
Appointed Auditor

Audit Commission
16 South Park
Sevenoaks
Kent
TN13 1AN

Ashford Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Ashford Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010.

Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatement

No further uncorrected misstatements have been identified other than those referred to in our letter dated 27 September 2010.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or

- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

I confirm there are no disclosures required in relation to the previous Chief Executive (David Hill) or Head of Financial Services (Pauline Adams).

Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Ashford Borough Council

I confirm that this letter has been discussed and agreed by the Audit Committee on 14 December 2010.

Signed

Name

Position

Date

Appendix 2 - Draft Audit Certificate to the Members of Ashford Borough Council for the year ended 31 March 2010

Issue of audit opinion

In my audit report for the year ended 31 March 2010 issued on 29 September 2010 I reported that, in my opinion, the financial statements presented fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2009, the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Issue of conclusion

As stated in my audit report for the year ended 31 March 2010 issued on 29 September 2010, I reported that in my opinion, in all significant respects, Ashford Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

In my report dated 29/09/10, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission, 16 South Park, Sevenoaks, Kent, TN13 1AN [Date]

Appendix 3 - Draft Audit Certificate to the Members of Ashford Borough Council for the year ended 31 March 2009

Issue of audit opinion

In my audit report for the year ended 31 March 2009 issued on 30 September 2009 I reported that, in my opinion, the financial statements presented fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Issue of conclusion

As stated in my audit report for the year ended 31 March 2009 issued on 30 September 2009, I reported that in my opinion, in all significant respects, Ashford Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2009.

Certificate

In my report dated [insert date], I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission, 16 South Park, Sevenoaks, Kent, TN13 1AN [Date]

Appendix 4 - Draft Audit Certificate to the Members of Ashford Borough Council for the year ended 31 March 2008

Issue of audit opinion

In my audit report for the year ended 31 March 2008 issued on 6 October 2008 I reported that, in my opinion, the financial statements presented fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Issue of conclusion

As stated in my audit report for the year ended 31 March 2008 issued on 6 October 2008, I reported that in my opinion, in all significant respects, Ashford Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Certificate

In my report dated 6 October 2008, I explained that the audit could not be formally concluded on that date until consideration of matters brought to my attention by local authority electors had been completed. These matters have now been dealt with. No other matters have come to my attention since that date that would have a material impact on the financial statements on which I gave an unqualified opinion and value for money conclusion.

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack

Officer of the Audit Commission

Audit Commission, 16 South Park, Sevenoaks, Kent, TN13 1AN [Date]

Agenda Item No: 5
Report To: **Audit Committee**
Date: **14 December 2010**
Report Title: **Review of Audit Committee**
Report Author: Brian Parsons Head of Internal Audit Partnership



Summary:

The Council commissioned a peer review of the Audit Committee from Local Government Improvement and Development (LGID)

The review was jointly commissioned by Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils and included interviews and discussions with councillors, officers and partners.

The objective for the review was to allow each Audit Committee to be benchmarked against examples of best practice and thereby help the Committee to become more effective in undertaking its functions.

The Audit Committee is asked to consider the LGID report and identify the actions to be taken in relation to the report's findings and conclusions.

Key Decision: No

Affected Wards: N/A

Recommendations **The Audit Committee is asked to:-**

Consider the report from Local Government Improvement and Development and identify the actions to be taken in relation to the report's findings and conclusions.

Financial Implications: There are no direct financial implications arising from the report.

Risk Assessment Yes

Equalities Impact Assessment No

Other Material Implications: None.

Contacts: Brian.Parsons@ashford.gov.uk – Tel: (01233 330442)

Report Title: Review of Audit Committee

Purpose of the Report

1. The report from Local Government Improvement and Development (LGID) has been received, following a review of the Audit Committee.
2. The review of each of the four Mid Kent Council Audit Committees was jointly commissioned by Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils and included interviews and discussions with councillors, officers and partners.
3. The objective for the review was to allow each Council's Audit Committee to be benchmarked against examples of best practice and help the Committee to become more effective in undertaking its functions.
4. The Audit Committee is asked to consider the LGID report and identify the actions to be taken in relation to the report's findings and conclusions.
5. The Improvement Manager for LGID, Eamon Lally, will be in attendance at tonight's meeting in order to present the report and to answer questions from Members.

Issue to be Decided

6. The report from LGID contains a general summary and a specific assessment of Ashford's Audit Committee. The assessment includes 'strengths' and 'areas for development'. Members are asked to give specific attention to those areas that relate directly to Ashford but also to consider whether any comments about the other Councils arrangements might be usefully considered in the context of Ashford.

Background

7. The Audit Committee has, at various times, reviewed its operation and its effectiveness. Earlier this year an opportunity arose for the Committee to be subject to a peer review conducted by Local Government Improvement and Development as part of a four way review to include Ashford, Maidstone, Swale and Tunbridge Wells borough councils. The review was intended to allow the Ashford Audit Committee to be compared against best practice elsewhere.
8. The review was conducted in September 2010, by a peer team comprising the Head of Corporate Strategy at North Kesteven District Council; the Deputy Leader of North Hertfordshire District Council and the Improvement Manager LGID.

Review of the Audit Committee – the report

9. The report from Local Government Improvement and Development is shown at Appendix 1. The report comments generally on the Mid Kent Audit Committees and then goes on to comment specifically on the strengths and areas for development for the Ashford Audit Committee (and subsequently the other three Audit Committees. Members are asked to specifically consider the comments (findings and conclusions) about Ashford but to also as part of a benchmarking approach, to consider the findings and conclusions about the other three Councils in order to help to identify any other areas for improvement or attention.

Risk Assessment

10. The Audit Committee is a key element of the Council's governance arrangements and plays a particular role in relation to the adequacy of the Council's risk management arrangements. The Committee needs to be effective and to operate to good practice standards in order to deliver on its responsibilities. A failure to operate in this way would provide a risk to the Council. The peer review has helped to provide assurance that this risk is being managed and has highlighted further opportunities to mitigate the risk.

Equalities Impact Assessment

11. Not applicable

Other Options Considered

12. Not applicable

Consultation

13. The peer review included interviews and discussions with councillors, officers and partners. Focus groups with middle managers and frontline staff from partner organisations were also held.

Implications Assessment

14. Improvements to the function of the Audit Committee will help to strengthen the good governance arrangements that the Council has in place.

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APPENDIX 1



Review of Audit Committees at

Ashford Borough Council

Maidstone Borough Council

Swale Borough Council

Tunbridge Wells Borough Council

21-23 September 2010

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Summary

The four Audit Committees are undertaking the required duties and responsibilities as set out by the Chartered Institute of Public Finance Accountants (CIPFA), covering audit activity, the regulatory framework and the councils' accounts. Three of the Audit Committees have terms of reference that follow CIPFA guidance. The agendas and minutes demonstrate that the business of the committees reflects the stated terms of reference.

Across all four authorities the review team found that the committee members are enthusiastic about the Audit Committee role and keen to make a significant contribution to the effectiveness of the councils' corporate governance.

The committees receive good administrative support and internal audit staff are a valued source of advice. In Maidstone there is a high degree of clarity about the senior management support and advice to the Audit Committee, which is valued. All the Audit Committees would benefit from clarity about the senior management responsibility for guidance and advice and the distinction between this role and that of the Head of Internal Audit.

Mid Kent Improvement Partnership (MKIP) for internal audit is considered to be a success. It will deliver savings of around £100,000 per year across all four authorities. The internal audit partnership has been a catalyst for discussions between Audit Committees about joint work, and it provides an opportunity for the councils to push the boundaries of best practice, by potentially engaging in more joint working, undertaking joint audits, coordinating work plans and addressing common issues e.g. changes to regulations and guidance.

The Audit Committees now have an opportunity to expand on their existing good practice and work to ensure that governance assurance reflects the changing environment in which councils are operating. This will entail the Audit Committees developing forward plans, linked to the councils strategic and service planning framework, that provide a better balance between statutory agenda items and more local issues. Partnership working is becoming increasingly important to councils and the role of the Audit Committees in relation to the governance of partnerships can be developed further. In developing this role it is important that duplication and overlap with the work of other committees, such as overview and scrutiny committees, is minimised.

To achieve the most from the Audit Committees, councils will need to invest in training. Ashford has been able to provide Audit Committee members with briefings on topical issues and this has been valued. However, all members of Audit Committees should receive ongoing development on wider aspects of

governance assurance and the role of the Audit Committee. The MKIP partnership provides an opportunity for Audit Committee members to learn together and for training to be commissioned at a reasonable cost.

In Tunbridge Wells Borough Council, non-voting co-opted members have been used to good effect and this is an option that all the Audit Committees could explore.

The work of Audit Committees can sometimes seem isolated from the rest of the governance structure. Formal processes for escalating Audit Committee recommendations and concerns should be clarified. With the demise of the external assessment and inspection regime across the public sector the councils need to ensure a continuing focus of the Audit Committee on challenging current practice, championing best practice, and being a catalyst for improvement to achieve objectives.

Report

Background

1. Ashford Borough Council, Maidstone Borough Council, Swale Borough Council and Tunbridge Wells Borough Council invited Local Government Improvement and Development to undertake a review of the councils' Audit Committees.
2. The role of Audit Committees is to provide independent assurance of the adequacy of the council's approach to risk and control and to provide independent scrutiny. Councils are not statutorily obliged to have Audit Committees. However, they are now part of the governance framework for the vast majority of local authorities and they are seen as an important part of effective corporate governance. The Audit Committees of the four borough councils in this review have been in place for a number of years.
3. The authorities asked for the review to enable them to benchmark against examples of best practice and also to help them consider how the Audit Committees can become more proactive in undertaking their functions.
4. The review was undertaken by a peer team composed of:
 - Patricia Phillipson, Head of Corporate Strategy, North Kesteven District Council
 - Cllr Terry Hone, Deputy Leader, North Hertfordshire District Council
 - Eamon Lally, Improvement Manager, LGID
5. The team was on-site from 21-23 September 2010. The programme for the onsite phase included activities designed to enable members of the team to meet and talk to a range of internal and external stakeholders. These activities included:
 - Interviews and discussions with councillors, officers and partners
 - Focus groups with middle managers and frontline staff from partner organisations
 - Reading documents provided by the councils,
6. We would like to thank the authorities for their welcome and professional approach to the review.

Context

7. Geographically Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils occupy mid Kent. The Geographic proximity of the Borough Councils has enabled partnership working to develop. A Mid-Kent Improvement Partnership (MKIP) is in place. Internal Audit is one of the activities of MKIP and this builds on a previous internal audit partnership between Maidstone Borough Council and Ashford Borough Council.



8. The four councils have distinct economic and social characteristics. Swale is ranked as the second most deprived district in Kent (behind Thanet). Tunbridge Wells, Maidstone and Ashford are ranked 9th, 8th and 7th respectively. The net revenue expenditure of the councils is around £24 million for Maidstone, £20 million for Swale and around £16 million for both Ashford and Tunbridge Wells.
9. All of the authorities are led by Conservative administrations. The political compositions of the councils are:

Ashford:	28 Conservative, 8 Liberal Democrats, 3 Ashford Independents, 2 Labour, 2 Independent
Maidstone:	28 Conservative, 23 Liberal Democrats, 4 Independents
Swale:	33 Conservatives, 10 Labour, 3 Liberal Democrats, 1 Independent
Tunbridge Wells:	46 Conservatives, 6 Liberal Democrats

10. The Audit Committees have between 5 and 9 members. All of the Audit Committees are made up of councillors and are cross party. Tunbridge Wells has in addition co-opted three non-voting members to its Audit Committee.

Ashford Borough Council

Strengths

- Well regarded chair and members
- Audit Committee has supported the Council to improve its financial position over the last three years
- Is now achieving greater independence
- Committee reviews its own effectiveness
- Committee well supported by officers
- Briefings are provided to Audit Committee members on topical issues
- Annual governance statement developed with member and officer involvement

Areas for Development

- Risk reports need enhancing
- Committee could expand its governance assurance role to cover partnerships
- Audit Committee should produce an annual report of its activities and effectiveness
- Skills assessment and further development for committee members
- Council could consider appointing co-opted non-voting members
- Greater promotion of the role of the Audit Committee across the Council

11. The Audit Committee in Ashford is broadly well regarded. Those that we interviewed spoke of the passion of the Chair of the Audit Committee for the role. There was recognition that members of the committee brought a wealth of relevant experience, having previously held senior accounting and finance positions. We heard that the atmosphere in the committee meetings was good and that members challenged in a constructive manner.

12. The council's use of resources has improved over the last three years and the Audit Committee has played its part in this. Financial reporting has improved and the Audit Committee has also worked on issues such as data quality. The Audit Commission in its 2008/09 Audit Letter (published in December 2009) noted that the council had a strong Audit Committee.

13. Independence is a very important characteristic of Audit Committees. We were told that the current Leader at Ashford does not attend Audit Committee meetings as a matter of course, as had previously been the case, and that the symbolism of this change provided greater head room for the committee.

14. The practice in Ashford is for a report on the strategic risk register to go to the Audit Committee quarterly. The report sets out any changes to the level of

risk associated with the items contained in the risk register. The reports are comprehensive and this reflects that risk management is a strength in the council. However, we heard that the reports to the committee could be sharper and more focused on key changes and accompanying mitigation, which would enable the committee to be assured that the council's response is appropriate. It also appears that the committee has not had a risk item on the agenda since September 2009.

15. The Audit Committee was established four years ago and there was an expectation that all governance issues would go through the committee. However, this is not currently the position and responsibility for governance issues is quite widely distributed. For example, a Community Partnership Group (council and its main partners) has some responsibility for considering issues relating to the governance of partnerships. In addition, the council's overview and scrutiny function is involved in reviewing issues that have wider governance implications. The overview and scrutiny committee received the Audit Commission's report on partnership working and has responsibility for reviewing the implementation of that report's recommendations. The involvement of a range of committees in governance issues is reflected in the drafting of the Annual Governance Report. This is considered first by a Governance Management Board, made up of the chairs of committees and internal and external auditors, before it goes to the Audit Committee. Although the arrangements seem to work well, there is a question over the extent to which the Audit Committee is enabled to fully consider the governance and risk issues related to partnerships such as Ashford's Future Partnership.
16. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year's activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.
17. Ashford, in its choice of members, has had regard for the experience and skills needed to be effective as part of the Audit Committee. The committee benefits from having members with financial and accounting backgrounds. The committee has not appointed any non-voting co-opted members. The experience of those authorities that have brought non-voting co-opted members onto the Audit Committee is that they can bolster the committee by bringing independence and challenge as well as useful skills and experiences from other sectors. Concerns are sometimes expressed that non-voting co-opted members will dilute the democratic mandate of councillors. This need not be the case. Audit Committees are technical rather than political and the evidence in Ashford is that the committee operates in a non-political manner.

There is scope to increase the capacity of the Audit Committee through co-option and the Audit Committee should consider this option.

18. The review team heard that the Audit Committee role was not well understood across the council. We heard that the Audit Committee was often seen by officers as the 'police force' of the committees. There is a role for senior members and senior managers to promote the supportive role of the committee, particularly in terms of helping managers to manage risk.

Maidstone Borough Council

Strengths

- Good calibre Audit Committee with well regarded chair
- Committee seen as quietly effective
- Open debate encouraged e.g. visiting members allowed to voice concerns (e.g. capital programme)
- Strong support from senior officers for the Audit Committee e.g. pre-briefing and wash-up sessions
- Chairs of relevant committees meet regularly to coordinate activity
- Cabinet using Audit Committee to address key VFM issues e.g. Business transformation and MKIP partnership
- Council should proceed with the appointment of a co-opted non-voting member

Areas for development

- Greater challenge of reports needed
- Better tracking of audit recommendations
- The governance assurance role of the Audit Committee could be expanded, but need to avoid any unnecessary duplication with overview and scrutiny
- Best practice indicates that Audit Committee should produce an annual report and seek to measure the effectiveness of the Committee

19. From our discussions with councillors, officers and stakeholders it is clear that the Audit Committee at Maidstone is well regarded. We were told that the members of the committee are of a good calibre and that the committee is well chaired. The committee can point to a number of achievements. Changes to the role and remit of the committee means that it is now responsible for signing-off the council's statement of accounts, which it did for the first time this year.

20. The Audit Committee is seen as effective by internal and external stakeholders. As well as its general assurance role, the committee has undertaken specific value for money reviews. The Committee is currently reviewing the work of the Business Transformation Team in relation to the Mid-Kent Partnership and also the council's approach to business transformation.

21. The Audit Committee is supported very effectively by council officers. The Director for Regeneration and Resources takes a lead in supporting the committee. The support takes the form of agenda planning meetings, pre-meetings and 'wash-up' meetings with the committee chair.

22. The Audit Committee has been able to act as a mechanism for discussing and addressing risk. A recent example is the Maidstone Museum East Wing Redevelopment Project. An internal audit review in August 2010 raised concerns about the funding for this project and the committee received reports from relevant officers on the subject. In considering the issue it has been able to put in place timetable for key updates on the progress for resolving the funding issues. The committee, in this instance, has also usefully acted as a means for councillors who are not members of the committee to gain information and raise questions. The open format of the meetings is helpful in this respect.
23. The discussion above highlights the scrutiny role of the Audit Committee. It is important that the roles of the Audit Committee and the council's scrutiny function are sufficiently distinct to ensure that duplication is kept to a minimum. In the case of Maidstone, the chairs of the relevant committees meet regularly to plan and share work programmes. The committees also refer on matters to each other as appropriate, with the Audit Committee focusing more on value for money issues.
24. The relationship between the Audit Committee and other strands of the council's governance arrangements are also strong. The Audit Committee is independent of the council's cabinet and has its direct relationship with Full Council. However, there is a good working relationship with cabinet. Cabinet has sought to draw on the expertise of the Audit Committee by inviting the committee to look into matters relating to value for money. The Audit Committee's work on business transformation and the MKIP derived from this source.
25. In a move which should strengthen the Audit Committee's independence and provide valuable specialist knowledge the council has agreed to appoint an independent non-voting member to the committee. This is to be welcomed.
26. The review team heard two views on the Audit Committee's approach and style. We heard that the committee was 'quietly effective', but also that the committee could be stronger in terms of its challenge to officers. The Audit Committee was seen by some as operating within the wider council culture of 'managing the message'. The Audit Committee should consider its approach to challenge to ensure that its activity is as effective as possible.
27. The review team was told that the assurance process did not include a system for tracking audit recommendations. One of the key benefits of an Audit Committee is its capacity to 'raise greater awareness of the need for internal control and the implementation of audit recommendations'.¹ If audit recommendations are not being tracked it makes it more difficult to ensure the adequacy with which recommendations are being implemented. The Audit

¹ *A toolkit for local authority Audit Committees, CIPFA*

Committee should consider implementing a system to track audit recommendations.

28. Audit Committees can have a broad role encompassing all governance issues. There is scope for the Audit Committee to expand its role to support the council in its broader partnership working, particularly in terms of governance arrangements and risk, both financial and more generally in terms of delivering key outcomes.
29. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year's activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.

Swale Borough Council

Strengths

- Committed and enthusiastic members and the committee addresses the full scope of Audit Committee activity
- Has been very effective when addressing local issues e.g. Faversham Enterprise partnership

Areas for Development

- Committee agendas shaped by Audit Commission cycles, could be greater balance between core and local agenda items
- Committee members need further training around governance assurance
- Skills of the committee could be bolstered through the appointment of co-opted non-voting members
- Senior officers and members need to promote the role and importance of the Audit Committee (e.g. earlier sight of final set of accounts)
- Greater forward planning of the Audit Committee agenda
- Committee should produce an annual report of its activities and effectiveness
- Committee to do more on risk assurance—risk management is an area that is underdeveloped across the council
- Terms of reference could be developed to meet the CIPFA standard

30. The review team heard that Swale's Audit Committee was committed and enthusiastic and that the meetings were lively. The committee members take the role seriously and the committee addresses key issues, particularly those shaped by external audit and audit commission requirements.

31. The Audit Committee has also shown that when it focuses on local issues it can be very effective. An example is the Audit Committee's approach to the grant funding for the Faversham Enterprise Partnership. The Council's executive had referred the reward of the grant to the Audit Committee. The Audit Committee asked to see a business plan, but was not happy with the information provided. The Audit Committee sent the issue back to the Council's executive for further consideration. The view of the members is that they "do not rubber stamp anything".

32. The Audit Committee also seeks to ensure that audit recommendations are implemented. In cases where recommendations are outstanding for long periods of time (one year) the committee can refer the matter to the Council's Policy and Resourcing Committee.

33. The review team heard that the value of the Audit Committee could be enhanced if it was to make more room for local audit to help with the councils

“wider improvement journey”. As stated above the committee has demonstrated that it can take on this role. The Audit Committee should work with the council’s executive and with officers to ensure that its programme is aligned with the council’s local objectives and priorities and includes a focus on some of the council’s wider partnership activities and on non-financial risks.

34. We were told that training for Audit Committee members was underdeveloped. Members were keen to receive training on core aspects of the role as well as on wider governance issues. For some commentators there was a need to improve the focus and direction of the committee and again training on the role of the committee for members would be beneficial.
35. Elected members that we spoke to were ambivalent about the possibility of co-opting non-elected members into non-voting roles on the committee. The concerns expressed included the lack of accountability of non-elected members and that it would be a further demonstration of elected members being “more and more side-lined”. However there was also a recognition that non-voting co-optees could bring additional skills and expertise, which would be welcomed. Two of the Audit Committees reviewed here, Tunbridge wells and Maidstone, have taken the decision to co-opt non-voting members to their committees and in general it is considered to be best practice. Swale Council should consider the co-option of non-voting members to the committee as a means of expanding its expertise.
36. There was a perception that the Audit Committee was seen by officers as being a tick box exercise. The examples given included the final set of accounts coming to the committee the day before they were due to be submitted and a report of the Faversham Enterprise Partnership which was seen as perfunctory. The committee needs to be effective so that the value it adds is recognised. However, senior members and officers should promote the role and value of the Audit Committee across the council.
37. The review team did not get a sense that the Audit Committee took a strategic view about how it planned its work. The Audit Committee could seek to align its work programme to the council’s key corporate objectives and local priorities as set out in the corporate plan and medium term financial strategy. To do so would ensure that the activity of the committee added greatest value to the support the council’s corporate objectives and local priorities.
38. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year’s activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and

publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.

39. In our discussions we heard that risk management was a relatively undeveloped area in the council. A new risk management strategy was reviewed by the Audit Committee in March 2010. The Audit Committee has a role in agreeing the strategy and also of considering risk issues when developing the annual internal audit plan. Certainly since the inception of the MKIP Internal audit partnership the focus on risk in developing the audit plan has been in evidence. Maintaining an oversight of the effectiveness of the risk management processes will be an area where the Audit Committee can add value.
40. In most cases we found that the terms of reference for the Audit Committees covered by the other three mid Kent Councils were working to CIPFA's guideline terms of reference. This is not the case in Swale and there is an opportunity to review the terms of reference to ensure that they fully reflect the work of the committee.

4

Tunbridge Wells Borough Council

Strengths

- Work of the Audit Committee seen as important across the Council
- Independent members valued and seen as effective
- Chair is well regarded
- Annual report seen as an example of good practice

Areas for development

- Formal relationships between cabinet and Audit Committee could be improved to enable Audit Committee to make a greater impact
- Process in place to ensure that ideas and conclusions arising from the meetings are captured and taken forward - recommendations could be smarter
- Committee members should seek and take opportunities to address key/contentious issues through agenda planning
- Member development required for Audit Committee members

41. Through our discussions with stakeholders it is clear that the Audit Committee, its chair and members, are well regarded and agendas are managed well. Stakeholders spoke of members' expertise drawn from their knowledge of the council and its activities and also professional careers, particularly in financial and legal areas. We also heard that the committee was enthusiastic and engaged in its role. The Audit Committee was seen as having been successful. An example was the contribution that the committee had made to the council's improved financial position over the last three years.
42. Tunbridge Wells Audit Committee has three non-voting co-opted non-elected members. The co-opted members were seen as being very effective and were normally a strong feature of the committee's deliberations.
43. Over time the committee has forged its independence and has grown in confidence. The Committee is able to engage in strong and enthusiastic discussions about issues rather than simply rubber stamping.
44. The Audit Committee reviews its own performance. This review is an example of how it evaluates its effectiveness. The Audit Committee also produces an annual report which sets out the committee's role and functions, its attendance record for the previous session, the programme it has completed over the year and a review of its effectiveness. The production of an annual report is considered good practice and is to be commended.

45. The committee is well supported by officers. We were able to attend an Audit Committee meeting at which there was good attendance from senior officers from across the council (as relevant to the agenda). Officers presenting items received challenge, but the relationship between officers and members was clearly respectful on both sides. The general level of support that the Audit Committee receives is also of a good quality. As with other Audit Committees it would be useful to be very clear on who is the lead support to the Audit Committee in terms of supporting members to develop the agenda and shape the future programme for the committee.
46. One of the key areas raised with the review team was the lack of a formal mechanism for the Audit Committee to escalate matters. We were told that there 'was not a confirmed pathway of what to do if you find something wrong'. In particular the issue of the relationship between the Audit Committee and the other key elements of the governance arrangements, including full council and the cabinet were such that it was not clear how the Audit Committee was having a wider impact across council policy. The Audit Committee will need to develop the links, both formal and informal to the council and cabinet to ensure that the pathways are in place to enable it to have a broader impact.
47. Some frustration was expressed that the Audit Committee's deliberations did not always result in a firm conclusions captured as Audit Committee recommendations. Some stakeholders questioned whether the committee was sufficiently inquisitorial in its approach. In the meeting we attended the minutes of the last meeting were amended to make the actions smarter. The Audit Committee should work to ensure that the outcomes of its discussions result in actions and recommendations which are clear and time bound.
48. During our visit we were able to attend a meeting of the Audit Committee. An issue relating to the financial implications for the council of the Tunbridge Wells regeneration, which had currency within the council and the local press was raised as an additional agenda item for the meeting, but no formal space was found for the issue to be raised. There should be scope through the agenda planning process for the Audit Committee and any pre-meetings for issues which are relevant and topical to be admitted to the agenda. It would be beneficial for such a process to be communicated to committee members.
49. We were told that committee members had received no formal training in the role and method of the Audit Committee. This is an area where generally members are selected based on their skills and aptitude for the role. However, there is still a need for members to gain knowledge which will make them successful in their role. For co-optees providing

information and training on the functions of the council would also be valuable. In concert with the other Audit Committees in Mid-Kent the council should consider a programme of development for committee members, including co-opted members.

Agenda Item No: 6

Report To: **AUDIT COMMITTEE**

Date: **14 DECEMBER 2010**

Report Title: **Annual Audit Letter (Audit 2009/2010)**

Report Author: Andy Mack, District Auditor
Paul Naylor, Deputy Chief Executive (covering summary)



Summary: Attached is the District Auditor's Annual Audit Letter covering the external audit for the 2009/2010 financial year. Andy Mack will be present at the meeting to present the report and take any questions.

It is pleasing to see the acknowledgement of continued improvement. There is only one recommendation in the report, which is a technical matter concerning the preparation of the Council's annual return to Government for the Whole of Government Accounts. Following the abolition by the Coalition Government of the 'Use of Resources Assessment' there is no 'scored' element in this letter as in past years. Members will see from the letter that the District Auditor nevertheless considers that the Council has adequate or strong arrangements and approaches across the range of issues examined. There was an unqualified conclusion about the Council's satisfactory arrangements to secure value for money and an unqualified opinion on the Financial Statements. The Letter also explains the scope of the auditor's work on examining value for money.

Key Decision: Not applicable

Affected Wards: None specifically

Recommendations: **The Audit Committee is asked to note the District Auditor's Annual Audit Letter for the 2009/2010 financial year.**

Policy Overview: It is a longstanding objective for the Council to maintain sound governance arrangements and deliver good value for money services to its residents. The Annual Audit Letter is important external feedback to help Members appreciate the progress the Council is making.

Financial Implications: None arise from this report

Risk Assessment Risks in relation to the Council's business are managed through assessments made by the Management Team and managers individually. There are no additional risks highlighted through the District Auditor's report that are not the subject of coverage through the risk management procedures.

Other Material Implications: None

Background Papers: Annual Audit Letter 2009/2010 and supporting external audit reports

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Annual Audit Letter

Ashford Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 9).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 29 September 2010. The accounts presented for audit were prepared to a good standard overall and I am pleased to note improvements in both the accounts and working papers compared to previous years.

2 I am unable to formally conclude the audit and issue a certificate until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements.

Value for money

3 I issued an unqualified value for money conclusion stating the Council has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources during the year ending 31 March 2010.

The economic environment

4 The Council achieved a good financial performance in difficult circumstances in 2009/10. Management action to target resources on priority areas, whilst reducing non-critical spending ensured the original budget was underspent by £200,000 and the Council was able to make a contribution to reserves.

5 The economic downturn and the recent comprehensive spending review are however imposing unprecedented financial pressures on the public sector. The Council is preparing a five-year business plan which aims to address these pressures. The success of this exercise will be critical to the future of the Council.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September 2010.

Overall conclusion from the audit

6 The Council prepared accounts to a good standard overall. Although I identified some errors and adjustments during the audit, none of the adjustments impacted on the overall general fund balance or the Council's reported financial position for the year. I am pleased to report the Council has improved the quality of the accounts and working papers and this reflects hard work from officers and the support of the Audit Committee.

7 During my audit I recommended the Council revise procedures to ensure timely completion of related party transaction declarations by all members and officers. Officers agreed to address this.

8 I have subsequently completed my work to certify the Council's Whole of Government Accounts (WGA) Return. I identified some material misstatements in this return and this is one area where the Council still needs to strengthen arrangements. I am currently in discussion with the finance team about the most effective and efficient way to do this.

9 The Audit Commission carried out a national survey during 2010 to assess the Council's preparation for implementing the International Financial Reporting Standards (IFRS) from 2010/11. This is a complex new area which requires significant input from staff, in finance and across the Council.

10 As part of this survey I have assessed the Council's performance as 'Amber'. The Council is on track with its plan and is undertaking the necessary preparatory work. The Council has identified the most complex areas for review, including accounting for leases and is putting time aside to deal with these. This represents sound progress overall. I will continue to work with the Council over the coming months as it completes its restated accounts.

Recommendation

R1 Integrate preparation of the WGA return with preparing the financial statements and ensure robust review arrangements are in place.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

11 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

12 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

13 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

14 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

15 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

16 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

17 The Council is currently developing a five-year business plan. This intends to address any shortfalls in funding from central government, set out clear priorities and test delivery models for services. The Council has recognised the need to consult with residents to inform the plan and now members and officers are determining priorities and spending. The outcome of this work will form of the basis of the business plan and budgeting for the next five years and will be critical to the future of the Council.

18 The Council underspent against its budget in 2009/10 by £200,000. It achieved savings of £1.9 million, however, the impact of this was offset by increased costs caused by unforeseen demands (£950,000), the impact of the recession (£410,000) and savings not achieved (£490,000). The underspend; recovery of VAT and higher Housing Planning Delivery Grant than budget has had a positive impact on reserves. The Council now has a General Fund balance of £3.4 million, a Housing Revenue Account balance of £1.6 million and other reserves of £2.9 million. I consider this to represent a reasonable position in difficult external circumstances.

19 The Council continues to have a good understanding of costs, linked to its support and back office functions through its work as part of the Mid Kent Improvement Partnership (MKIP). The Council has recently decided to withdraw from MKIP and alternative cost saving and efficiency measures are being developed as part of the business planning process. Costing information remains of good quality and is used to aid decision-making. Use of benchmarking is systematic through service reviews. Development of benchmarking linked to work to refresh corporate priorities would be of use to wider decision-making.

Governing the business

20 The Council takes a proactive approach to exploring shared services with others and is keen to achieve transformational change. However, any change must meet the objectives of the Council and deliver real value for money. The Council has strengthened processes for evaluating procurement options and these are effective. Its Procurement Board now carries out regular reviews of procurement practice as contracts are approaching their renewal dates.

21 There are sound arrangements for collecting, recording and reporting data used in decision making. Risk management arrangements are working effectively and incorporate partnership working. The Council is strengthening performance reporting, including risk management, to members.

Managing resources

22 The Council is developing a climate change strategy and its understanding of its emissions underpins this. Some strategies and plans are in place on tackling climate change, such as on water and open space management. The Council is part of the Energy Savings Trust's local authority one-to-one support programme and is now working on an action plan. The Carbon Trust has carried out audits which identified energy savings initiatives. Work is carried out with the Kent Environment Directors Group and through the Kent Energy Efficiency Partnership. The Council worked well with its partners on the Kent Resilience Forum to develop a multi-agency flood plan.

23 The Council has an adequate approach to reducing its impact on the environment. Good quality performance data is collected for the National Indicators which focus on sustainability. Key messages on energy conservation are promoted throughout Council owned buildings. Water consumption has fallen by 20 per cent in the Civic Centre following changes made. The Council plays an effective role in sustainable development and effective land management, seeking to ensure development is of a high and sustainable quality. Its adopted Core Strategy sets high standards for sustainable construction and carbon reduction and it has established an Ashford carbon fund to ensure developments in the Borough achieve carbon neutrality.

Approach to local value for money work from 2010/11

24 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

25 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

26 For your audit, I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Future challenges

27 During 2009/10 the Council has demonstrated good financial management in difficult circumstances. However, in common with the rest of the public sector it is facing significant financial challenges ahead. The scale of the financial savings required by the governments Comprehensive Spending Review are unprecedented. This is exacerbated by the fact that demand for some services, notably benefits, is increasing and the income from fees and charges may reduce. Efficiency savings alone will therefore not be enough to balance the budget.

28 As part of developing the five-year business plan both members and officers are facing difficult decisions about spending priorities. The Council has also recognised the need to:

- focus all activities, resources and partnership arrangements firmly on business priorities;
- keep the Medium Term Financial Plan, including the realisation of planned savings, firmly under review; and
- develop enhanced performance management arrangements which will support staff in refreshing their skills and embracing a fresh approach to service planning.

29 My team and I will work with you over the coming months, sharing good practice where appropriate and providing support as a 'critical friend' where we can.

Closing remarks

30 I have discussed and agreed this letter with the Chief Executive and the Deputy Chief Executive. I will present this letter at the Audit Committee on 14 December 2010 and will provide copies to all board members.

31 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	June 2009
Opinion Audit Plan	June 2010
Annual Governance Report	September 2010

32 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Andy Mack
District Auditor
October 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements, WGA and annual governance statement	101,350	101,350	0
Value for money	34,100	34,100	0
Total audit fees	3,350	3,350	0
Non-audit work	0	0	0
Total	138,800	138,800	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 3 Action plan

Recommendations

Recommendation 1

Integrate preparation of the WGA return with preparing the financial statements and ensure robust review arrangements are in place.

Responsibility	Finance Manager
-----------------------	-----------------

Priority	Medium
-----------------	--------

Date	End June 2011
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Comments	<p>The WGA process will be reviewed and we will seek to integrate further into the process for the production of accounts. The form was used as part of the validation process for the statement and does need to be completed concurrently with the statement.</p> <p>The Officer responsible for the preparation of the return has been briefed on the need to update the return for audit adjustments in a timely fashion.</p>
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Agenda Item No: 7
Report To: AUDIT COMMITTEE



Date: 06/12/2010

Report Title: **Annual Governance Statement – progress on remedying exceptions for 2009-2010**

Report Author: Nicholas Clayton, Policy and Performance Officer

Summary: Under the Accounts and Audit Regulations 2003 the Council is required to review, at least annually, the effectiveness of its systems of internal governance, and include a statement on governance issues with the Council's Statement of Accounts. In June 2010 the Council published its Annual Governance Statement which identified a number of exceptions with regards to the systems of internal governance and control. This report provides Members with an update on the progress that has been made so far this year in remedying the governance exceptions in the Annual Governance Statement.

Key Decision: NO

Affected Wards: ALL

Recommendations: **The Audit Committee be asked to note the progress to date on resolving the governance exceptions identified in the 2009-2010 Annual Governance Statement.**

Financial Implications: None

Risk Assessment YES – the Council must demonstrate adequate processes for remedying the significant governance issues identified in the 2009-2010 Annual Governance Statement, otherwise it would be difficult to demonstrate compliance with the Accounts and Audit Regulations.

Background Papers: Annual Governance Statement 2009-10

Contacts: Nicholas.clayton@ashford.gov.uk – Tel: (01233 330208)

Report Title: Annual Governance Statement – progress on remedying exceptions for 2009-2010

Purpose of the Report

1. The covering report to the 2009-2010 Annual Governance Statement undertook to provide the Audit Committee with quarterly updates on the progress being made to rectify the governance exceptions identified within the 2009-2010 Annual Governance Statement. This report fulfils this obligation.

Issue to be Decided

2. The progress made to date in tackling the significant governance issues identified in the 2009-2010 Annual Governance Statement

Background

3. In the 2009-2010 Annual Governance Statement four significant governance issues were identified to come before the Audit Committee. These are noted below, with an indication of current progress given in bold.

Governance Issues	Planned Improvements
<p>1. A lack of strategic prioritisation and therefore direction for the Council.</p> <p>This Audit Commission’s ‘Organisational Assessment’ of the Council for 2008/09 raised this issue, stating that <i>‘The Council often does not know if the work it is doing itself and with partners is making a difference to local people.’</i> Clear priorities should then inform performance management and workforce planning arrangements.</p>	<p>The Council has recently engaged in widespread community consultation for the drawing-up of its new Business Plan, and is looking to reprioritise its spending around those areas considered of real importance by local residents. The results of this consultation with and involvement by the community will feed into final recommendations for policy change in 2011.</p> <p>The Executive considered the progress of the Council’s Business Plan in November, with final development to be approved in February 2011. Concurrently, work is ongoing to develop suitable priority planning to underpin deliverables for each of the priority areas set out in the Plan.</p>
<p>2. Partnership-working.</p> <p>A follow-on from a recommendation made by our external auditors about continuing to develop our arrangements for measuring the accountability and effectiveness of partnership working.</p>	<p>Reviews of the Council’s partnership arrangements by both internal and external audit teams are planned to be reported later in late 2010 or 2011.</p> <p>Reviews of the Council’s Ashford Future Partnership, and relevant risks, are currently being compiled by the Internal Audit Team and Zurich Insurance respectively.</p>

<p>3. Equalities Assessments</p> <p>This refers to the continuing work of the Overview and Scrutiny Committee that is overseeing services' progress with fulfilling the Council's equalities duties. This includes completion of Impact Assessment against current priorities and policies (where there has been better progress during 2009/2010, but the work is not fully complete) and further progress on the Council's Equality Scheme. The new Equalities Act will also begin to have an impact on services during the next year.</p>	<p>Impact</p> <p>This is a continuing issue which is programmed for further review by the Overview and Scrutiny Committee. The primary focus is on complying with Equalities Assessment needs before drafting of any suitable policy changes may begin.</p> <p>Ashford Borough Council has assessed the implications of the new Equalities Act, reporting accordingly to Management Team and members. Specific Public Sector Duties will come into force from April 2011, with reporting of progress from April 2012.</p> <p>As of November 2010 the Council has achieved 87% of Stage One Assessments, good progress compared to the 66% achievement noted a year previously.</p>
<p>4. Financial Reporting and Budget Presentation</p> <p>In part this refers to matters raised by our external auditor about the need to <i>'review and strengthen quality control arrangement for the production of the annual accounts'</i>. It also refers to matters raised by the Overview and Scrutiny Committee about presenting budget information and monitoring reports during its scrutiny of the 2010-2011 Budget and improvements considered necessary.</p>	<p>The Deputy Chief Executive presented a full report on the council's financial reporting to the September Overview and Scrutiny Committee, including those steps that have now been completed in order to improve reporting and presentation. This report was received and noted.</p> <p>Internal Audit has concluded an audit into the budget setting process. The audit evaluated and tested the procedures for dealing with the budget setting process, support service costs, and the monitoring arrangements for savings identified. The audit report identified a number of improvements to the previous processes and concluded that the arrangements in place for the budget setting process are robust.</p>

Conclusion

4. Progress to rectify the previously identified control weaknesses continues to be made and a further report will be provided in March 2011.

Contact: Nicholas.clayton@ashford.gov.uk – Tel: (01233 330208)

Agenda Item No: 8
Report To: **Audit Committee**
Date: **14 December 2010**
Report Title: **Ashford Growth Agenda - Strategic Risks**
Report Author: Brian Parsons - Head of Internal Audit Partnership



Summary:

The background to this report was the outcome of an Internal Audit of the governance, programme management, accounting and administrative arrangements for Ashford's Future, particularly bearing in mind the Council's role as Accountable Body for Growth Area Funds from CLG. Among other things the Internal Audit Report (April 2010) recommended that a full risk assessment be carried out given the impact of the recession and the likelihood then of future announcements of government cutbacks.

A full risk assessment was completed and this report sets out the results. The risks were identified through interviews and a risk workshop with senior managers.

Please note the assessment was completed prior to the recent actions to review both the growth strategy and the delivery arrangement through the Ashford Future Company. Partly these recent actions respond to Government announcements of a much changed landscape, including a localist approach to determine housing growth and the specific abolition of Growth Area Funding.

The report advises that the risks identified will all be considered as part of the current growth review and the development of future delivery arrangements with our partners. The report is, therefore, largely for information at this time...

Key Decision: No

Affected Wards: N/A

Recommendations **The Audit Committee is asked to note the strategic risk assessment completed in respect of Ashford's Future and that the outcomes will be used to inform the development of future arrangements for the delivery of growth in Ashford.**

Financial Implications: The impacts of some of the identified risks have financial implications.

Equalities Impact No

Assessment

**Other Material
Implications:**

The risks relate to the ability to deliver the growth agenda.

Contacts:

Brian.Parsons@ashford.gov.uk – Tel: (01233 330442)

Report Title: Growth Agenda - Strategic Risk

Purpose of the Report

1. The basis for this report predates the more recent decisions in relation to the delivery of growth in Ashford, but nevertheless identifies strategic risks that help inform development of future arrangements.
2. The risks were identified through interviews and a risk workshop with senior managers.
3. The full report was compiled by our risk advisors, Zurich Municipal, and is attached at Appendix A.
4. The purpose of this report to the Audit Committee at this time is to provide assurance to the Committee that risks to the delivery of growth in Ashford have been considered and will now form part of the process of considering future arrangements. As the funding and strategic landscapes continue to develop, further assessments of risk will be carried out over the course of next year.

Issue to be Decided

5. A total of fourteen strategic risks were identified, all of which were judged by the Officers attending the risk workshop as being 'above the risk tolerance line' indicating they would need active management. However, action relating to the risks must now wait until the future arrangements on funding and delivery become clearer. Indeed, it is likely that other risks will emerge as the delivery arrangements and full impacts of the Government's 'localism' policies become clearer.
6. The Audit Committee is asked to note the outcomes of the review and that a process is in place to inform development of future arrangements for the delivery of growth in Ashford.

Background

7. Ashford was designated by the then Government in 2001 as one of four key growth areas in the South East and has benefited from significant levels of Communities and Local Government funding to support the delivery of key infrastructure projects.
8. Ashford Borough Council was a Founding Member Partner of the Ashford's Future Partnership Board, along with representation from national and regional development agencies – English Partnership (HCA) and the South East England Development Agency – and the KCC. The Partnership has been responsible for coordinating the development of the town and surrounding area to meet the original regeneration, growth, housing and infrastructure objectives by 2031.

9. The Partnership Board established the Ashford's Future Company Ltd (limited by guarantee) to support delivery of the development programme, to deploy Government's funding and to leverage other public and private funding opportunities. The Company was formally incorporated in November 2008 and is currently responsible for a three year regeneration programme, funded to March 2011.
10. The current financial climate and most specifically the cuts in public spending from 2011 will severely restrict the ability to fund future projects that would have comprised the Programme for Growth. This in turn impacts on the scope and purpose of the Ashford's Future Company. Coupled with the Coalition Government's and this Council's 'localist' aims new arrangements for the delivery of growth in Ashford are now to be drawn up with our partner organisations. A full report about this was presented to the Executive on 9 December 2010.
11. Predating the current review Zurich Management Services was engaged to carry out a risk management exercise to identify the risks to the delivery of the growth agenda. The results of the exercise are set out in the attached report (Appendix A). It is emphasised the outcomes reflect potential risks that could occur given certain circumstances
12. The current position and the need to 'take stock' means that it would not be appropriate at this stage to begin to develop detailed actions relating to the risks, as the risks may change and the mechanisms for handling risk management need to be defined as part of developing the future arrangements. Therefore the Committee is asked to note, that at this point, action will be deferred, but that the outcomes of the risk review will be used to inform development of future arrangements for the management and delivery of growth.

Risk Assessment

13. Risk is the subject of the report.

Equalities Impact Assessment

14. Not applicable

Other Options Considered

15. Not applicable

Consultation

16. Those senior managers who attended the risk workshop have identified and been consulted on the risks to the growth agenda.

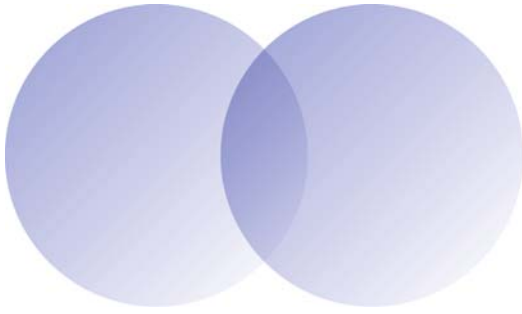
Implications Assessment

17. The growth agenda has been an important part of the Council's long term strategy for the future development of Ashford since 2001. It is now necessary

to take stock. The identified risks will need to be reconsidered when future arrangements become clearer.

Contact: Brian Parsons. 01233 330442

Email: brian.parsons@ashford.gov.uk



APPENDIX A

Private and Confidential

Growth Agenda Strategic Risk workshop report

Prepared for: Ashford Borough Council

Report author: Philip Coley
Principal Risk Consultant

Date prepared: October 2010

Zurich Management Services Limited
Registered in England: No 2741053
Registered Office
The Zurich Centre, 3000 Parkway
Whiteley, Fareham
Hampshire, PO15 7JZ



ISO 9001

Quality-Assured Service Unit

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1. Introduction

On 5th October 2010, a Strategic Risk Management workshop was conducted with senior managers at Ashford Borough Council. This workshop provided an opportunity for attendees to identify and prioritise the key risks related to the Council's Growth Agenda as set out in its Core Strategy and Local Investment Plan

This workshop was also informed by the outcomes from interviews undertaken two weeks earlier with senior managers to discuss the strategic risks and these outcomes were presented to group to aid the discussion.

During the workshop each risk was discussed to ensure common agreement and understanding of its description and then prioritised according to likelihood and potential impact on the ability of the Council to achieve its priorities for the Growth Agenda:

- A Sustain high levels of housing delivery
- B Bring forward strategic investment in the economy
- C Create communities and excellent new places to live
- D Promote sustainable lifestyles
- E Set up revised arrangements for planning and delivering the growth agenda

This report outlines the process used by Zurich Risk Engineering and the outcomes achieved. In doing so it includes detail on the strategic risks that were identified and prioritised by the group.

This is a private and confidential document prepared exclusively for Ashford Borough Council by Zurich Risk Engineering. It has been distributed to Brian Parsons, Head of Internal Audit and Risk Strategy and a copy has been retained by Zurich Risk Engineering.

2. Executive Summary

At the workshop the following risks were identified and prioritised:

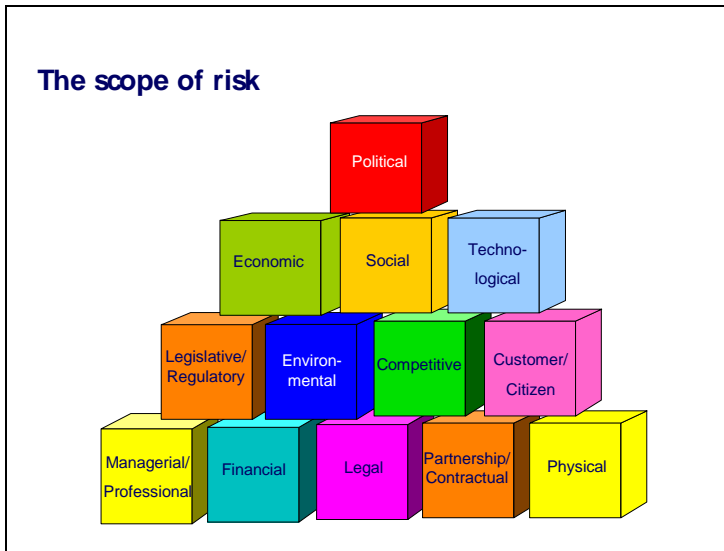
Risk No.	Risk	Risk Rating Likelihood x Impact
5b)	Lack of effective job creation in the area / an inappropriate balance of jobs leading to a decline in average earnings.	Significant (C) / Catastrophic (I)
5d)	Lack of revenue for effective long term maintenance of infrastructure.	High (B) / Critical (II)
6	Assumptions about forward funding revenue streams prove to be significantly wrong.	High (B) / Critical (II)
1d)	Lack of key skills and capacity in the new delivery arrangement and lack of funding to provide this.	Significant (C) / Critical (II)
4	Lose sight of the long term vision of the Growth Agenda programme / Short-termism	Significant (C) / Critical (II)
5a)	Council lacks a clear understanding as to what the quality and sustainability of housing should look like and whether the market can sustain this.	Significant (C) / Critical (II)
5c)	Level of investment in infrastructure (buildings and open spaces) is not adequate to meet the needs of a growing population.	Significant (C) / Critical (II)
1a)	Lack of clarity / agreement about the role and structure of the delivery arrangement.	Low (D) / Critical (II)
1b)	Lack of clear accountability of the delivery arrangement / lack of effective checks and balances in its decision making process	Low (D) / Critical (II)
1c)	Lack of an effective working relationship between the delivery arrangement and other partners	Low (D) / Critical (II)
1e)	Lack of clear democratic mandate / lack of clarity as to who controls the new delivery arrangement (ABC or KCC).	Low (D) / Critical (II)

3	Council fails to develop and implement an appropriate and effective strategy for generating market interest which leads to the delivery of key projects.	Low (D) / Critical (II)
7	Failure to engage with the community and demonstrate delivery over the long term.	Low (D) / Critical (II)
2	Costs to the Council of disbanding the Company e.g. TUPE costs / termination payments / legal costs are more significant than anticipated.	High (B) / Marginal (III)

3. The Process

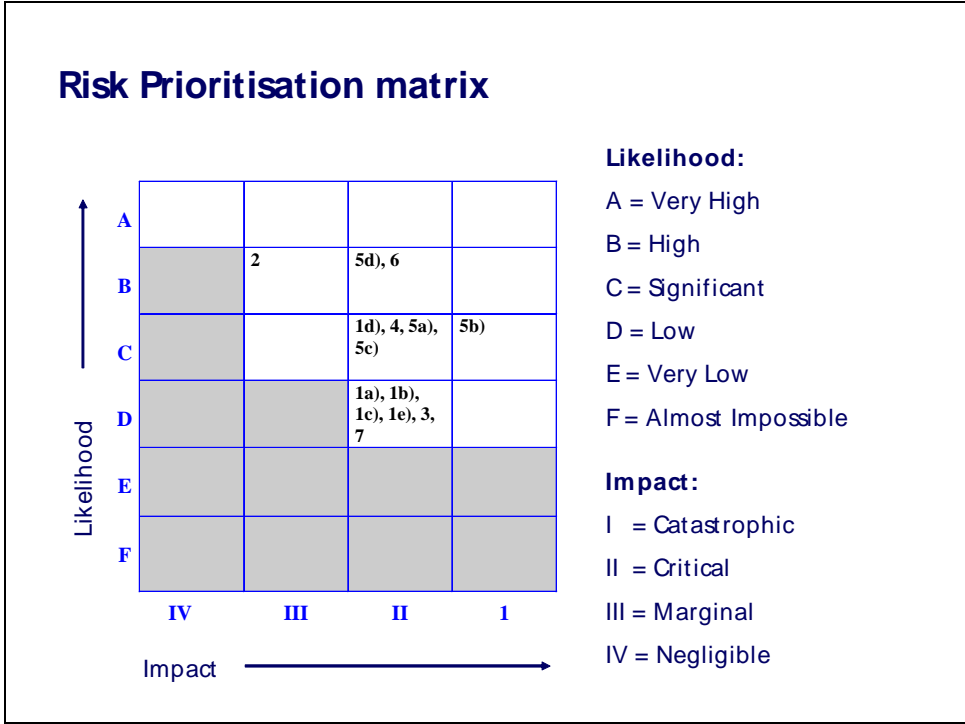
Risk Identification

The first stage of the risk management cycle requires risk identification. In doing so the group considered the following categories of risk.



Risk Analysis and Prioritisation

At the workshop 14 key strategic risks were identified these were then prioritised using the matrix below. In doing so, attendees prioritised residual risk by taking account of actions already in place to manage the risks.



3. Next steps

Following on from the workshop and this report it is recommended that the following actions are taken to move this work forward.

Risk Management and Monitoring

It is recommended that the development of action plans to address the risks is completed as soon as possible. It is also important that this work is monitored and measured and that management action plans are reassessed regularly to ensure that progress is being made and that targets can be met.

It is also recommended that senior managers are assigned ownership of each of the risks and that a review of the risks and action plans is undertaken on a regular basis to ensure that the Growth Agenda Strategic Risk Register remains up to date and to identify any risks that need to be changed, added or taken off.

Appendix 1

Ashford BC Growth Agenda Strategic Risk Register

Risk No.	Vulnerability	Trigger	Consequence	Risk Rating Likelihood x Impact
1	New delivery arrangement There is uncertainty about the possible role and structure of a new delivery arrangement set up to support the delivery of Ashford's growth programme.	1a) Risk that there is a lack of clarity / agreement about the role and structure of the delivery arrangement.	<ul style="list-style-type: none"> Resources wasted / increased bureaucracy Tensions between the delivery mechanism and partners Impact on delivery of projects Reputation undermined 	Low (D) / Critical (II)
		1b) Risk of a lack of clear accountability of the delivery arrangement / lack of effective checks and balances in its decision making process e.g. when bidding for funding.	<ul style="list-style-type: none"> Potential for promises to be made that can't be fulfilled Possible legal / financial implications Council regarded as accountable body Reputation of the Council undermined 	Low (D) / Critical (II)
		1c) Risk of a lack of an effective working relationship between the delivery arrangement and	<ul style="list-style-type: none"> Tensions arise Work to different priorities / objectives / different 	Low (D) / Critical (II)

		other partners / risk that the role of the delivery arrangement is not valued or recognised.	<ul style="list-style-type: none"> perceptions of risk Impact on delivery of projects Financial implications 	
		1d) Risk of a lack of key skills and capacity in the new delivery arrangement and a lack of funding to provide this.	<ul style="list-style-type: none"> Impact on delivery of projects Financial implications of trying to find skills elsewhere Pressure on existing staff Reputation undermined 	Significant (C) / Critical (II)
		1e) Risk of a lack of clear democratic mandate / lack of clarity as to who controls the new delivery arrangement (ABC or KCC).	<ul style="list-style-type: none"> Lack of member commitment Credibility of strategy undermined Impact on delivery of projects 	Low (D) / Critical (II)
2	Ashford's Future Company The disbanding of the Company and will have financial implications for the Council.	Risk that costs to the Council of disbanding the Company e.g. TUPE costs / termination payments / legal costs are more significant than anticipated.	<ul style="list-style-type: none"> Financial position worsens Cuts have to be made elsewhere Service delivery adversely affected Impact on delivery of projects 	High (B) / Marginal (III)
3	Level of market interest Priorities outlined in the	Risk that the Council fails to develop and implement an appropriate and effective	<ul style="list-style-type: none"> New developers / investors not attracted and therefore new business and 	Low (D) / Critical (II)

	<p>Local Investment Plan include the need for the Council to work in partnership with significant developers / investors.</p> <p>This requires the Council to develop and implement an effective strategy for making Ashford attractive to the market which then leads to the delivery of key projects.</p>	<p>strategy for generating market interest which leads to the delivery of key projects.</p>	<p>communities not attracted</p> <ul style="list-style-type: none"> • Impact on delivery of key projects • Strategy undermined • Overall growth programme objectives not delivered 	
4	<p>Central Government decision making</p> <p>The growth programme is happening at a time of uncertainty in terms of outcomes from the Government spending review and changes in central government policy making and decision making.</p> <p>In doing so it needs to be able to respond to short</p>	<p>Risk of losing sight of the long term vision of the Growth Agenda programme / Risk that the need to respond to government decision making and policy making leads to short-termism.</p>	<ul style="list-style-type: none"> • Loss of quality • Inappropriate developments • Financial implications • Overall growth programme objectives not delivered 	<p>Significant (C) / Critical (II)</p>

	term decision making whilst also not losing sight of delivering on longer term plans and objectives.			
5	<p>Quality and sustainability of development</p> <p>The Council needs to work with developers to ensure that the right quality and mix of housing and investment in the town centre is delivered. It also needs to engage with other stakeholders e.g. education and health to ensure that an appropriate infrastructure is developed to support this.</p>	<p>5a) Risk that the Council lacks a clear understanding as to what the quality and sustainability of housing should look like and whether the market can sustain this.</p>	<ul style="list-style-type: none"> • Inappropriate developments • Strategy undermined • New communities not attracted to the area • Credibility undermined 	Significant (C) / Critical (II)
		<p>5b) Risk of a lack of effective job creation in the area / an inappropriate balance of jobs leading to a decline in average earnings.</p>	<ul style="list-style-type: none"> • People work elsewhere • Reputation of the area for investment declines • Growth stalled • Local economy declines 	Significant (C) / Catastrophic (I)
		<p>5c) Risk that the level of investment in infrastructure (buildings and open spaces) is not adequate to meet the needs of a growing population.</p>	<ul style="list-style-type: none"> • Impact on growth • Credibility of strategy undermined • Attractiveness of area declines • Overall growth programme objectives not delivered 	Significant (C) / Critical (II)

		5d) Risk of a lack of revenue for effective long term maintenance of infrastructure.	<ul style="list-style-type: none"> • Infrastructure declines • Attractiveness of area declines • Financial implications • Overall growth programme objectives not delivered 	High (B) / Critical (II)
6	Forward funding In taking a long term approach to forward funding key projects e.g. through the Strategic Tariff, business rates etc. the Council has to make assumptions about the reliability of revenue streams.	Risk that assumptions about revenue streams prove to be significantly wrong.	<ul style="list-style-type: none"> • Financial implications • Cuts have to be made elsewhere • Service delivery adversely affected • Strategy undermined 	High (B) / Critical (II)
7	Community engagement The Council needs to be able to sell / communicate the vision for the growth programme to the community and demonstrate how this is being delivered / demonstrate the benefits.	Risk of a failure to engage with the community and demonstrate delivery over the long term.	<ul style="list-style-type: none"> • Lose confidence of the community • Community don't see the benefits • Strategy undermined • Council sidelined as community does its own thing 	Low (D) / Critical (II)

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Audit Committee - Future Meetings

Date 01/02/2011		PH Cllr Wood	
Publish by 24/01/11		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 20th January		Council 17/02/11	
6pm	Pre-Committee Briefing on Five Year Business Plan, Economic Position and Cuts Affecting Local Government?		
1	Minimal/Limited Audits	BP	
2	Annual Governance Statement – Progress on Remedying Exceptions	NC	
3	Performance Compendium Report	GL	
4	Presentation of Financial Statements	PN/BL	
5	Statement of Accounts - Result of Wash Up Meeting with Audit Commission and Starting Next Year's Accounts (Dealing with IFRS)	PN/BL	
5	Internal Audit Partnership – Update	BP	
6	Risk Management – Future Proposals	BP	
7	Report Tracker & Future Meetings	DS	

Date 07/06/2011		PH Cllr Wood	
Publish by 27/05/10		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 26th May		Council 21/07/10	
1	Minimal/Limited Audits	BP	
2	Internal Audit Annual Report 2010/11	BP	
3	Annual Review of the Effectiveness of the Systems of Internal Audit	BP	
4	Approval of Annual Governance Statement	NC	
5	Report Tracker & Future Meetings	DS	

Date 21/06/2011		PH Cllr Wood	
Publish by 13/06/11		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 9th June		Council 21/07/10	
1	Minimal/Limited Audits	BP	
2	Statement of Accounts 2010/11	PN/BL	
3	Benefit Fraud Annual Report 2010/11	Jo Fox	
4	Internal Audit Operation Plan 2011/12	BP	
5	Performance Compendium Report	GL	
6	Report Tracker & Future Meetings	DS	

Date 6/09/2011		PH Cllr Wood	
Publish by 27/08/11		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 26th August		Council 19/10/11	
1	Minimal/Limited Audits	BP	
2	2010/11 Accounts and the External Auditor's Annual Governance Report	AComm (cover by PN)	
3	Internal Audit Operational Plan 2011/12	BP	
4	Annual Governance Statement – Progress on Remediating Exceptions	NC	
5	Performance Compendium Report	NC	
6	Report Tracker & Future Meetings	DS	

Date 6/12/2011		PH Cllr Wood	
Publish by 28/11/11		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 24th November		Council 15/12/11	
1	Minimal/Limited Audits	BP	
2	Annual Governance Statement – Progress on Remediating Exceptions	NC	
3	Performance Compendium Report	NC	
4	Annual Audit Letter 2010/11	PN	
5	Report Tracker & Future Meetings	DS	

6/12/2010