



Audit Committee

Notice of a meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane, Ashford, Kent TN23 1PL on Monday 27th June 2011 at 7.00 pm

The Members of this Committee are:-

Cllr. Clokie (Chairman)

Cllr. Link (Vice-Chairman)

Cllrs. Marriott, Sims, Smith, Taylor, Wright, Yeo

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 21st April 2011

Part I – For Decision

4. Internal Audit Annual Report 2010/11
5. Benefit Fraud Annual Report 2010/11
6. Annual Report of the Audit Committee 2010/11
7. Approval of Annual Governance Statement
8. CLG Consultation – The Future of Local Public Audit

Part II – Monitoring/Information Items

9. Report Tracker and Future Meetings

DS/VS
17th June 2011

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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 **21st April 2011**

Present:

Cllr. Taylor (Chairman);
Cllrs. Feacey, Koowaree, Smith, Woodford.

Apologies:

Cllrs. Ellison, Mrs Laughton, Link, Wood.

Also Present:

Deputy Chief Executive, Head of Internal Audit Partnership, Audit Partnership Manager, Senior Member Services & Scrutiny Support Officer

Mr Andy Mack – Audit Commission.

459 Election of Chairman

In the absence of the Chairman the Committee was informed that there was a need to elect a Chairman for this Meeting from the Members present.

Resolved:

That Councillor Taylor be elected as Chairman for this Meeting of the Audit Committee.

460 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 1st February 2011 be approved and confirmed as a correct record.

461 Communities & Local Government Consultation – The Future of Local Public Audit (including the role of Audit Committees)

The report explained that Communities and Local Government (CLG) was seeking responses to a consultation paper 'The Future of Local Public Audit'. The paper set out the Government's proposals to replace the public audit arrangements currently provided through the Audit Commission. Members were asked to consider the proposals set out in the consultation paper and to provide a steer for Officers to prepare a draft response to CLG. There would be further consultation with Members

in June 2011, prior to the response being finalised. A further document had been tabled for Members providing draft suggested responses to the questions in the consultation paper.

The Head of the Internal Audit Partnership explained that this was the first part of the consultation process stemming from the Government's decision to abolish the Audit Commission. Full responses were needed by the 30th June 2011, so whilst there would be time to consult with Parish Councils, Management Team and the Executive before coming back to this Committee in late June, there was a need to get discussions underway with an analysis of the pros and cons of the proposals.

Mr Mack explained that he had been asked to set the scene about the level of service the Council currently received from the Audit Commission. The Commission appointed Auditors to Local Authorities and had to comply with a National Code of Practice. The two broad things they were responsible for were offering an Opinion on: - the Council's Accounts; and the Council's Value for Money arrangements. They reported those findings to the Audit Committee in an Annual Governance Report and publicly in the Annual Audit Letter. The Commission also signed off grant claims, undertook other advisory work and dealt with queries from local electors. International Auditing Standards had brought the public and private sectors closer together which would make the sourcing of a new External Auditor easier for the Council, but there were clear differences between what the public and private sectors obtained from their audit work. The Value for Money Conclusion for example was not a requirement in the private sector, but he said it was personally something he thought should be retained because of the public money involved and the rights of Local Electors to challenge the accounts. Auditing of Parish Councils was currently done remotely with bank statements and simple income and expenditure accounts being submitted to the External Auditor. This 'limited' auditing regime was cheaper and more efficient and generally worked well.

In terms of what made a good audit, Mr Mack hoped that the Commission had been able to dispel the myth of "Scary Auditors". A good audit involved working together with Officers effectively and sharing resources. They had worked closely with the Council's Finance Team over recent years on International Financial Reporting Standards, PFI Activity and the maximisation of grant claims and working relationships were good. The Audit Commission also worked across Kent with Chief Finance Officers achieving economies of scale. The Commission had also previously produced national reports on a host of topics. It was recognised that the intensive public auditing regime of three or four years ago had been too much and a lighter touch approach was needed for the future. The Commission was being abolished, but it was important for the Council to consider the things that they did want to see continue.

With regard to the future of the Audit Commission, Mr Mack updated that they had put a proposal to the Government to retain the Commission as a staff owned mutual competing in the market with private sector companies, and they were waiting for a response.

The Committee agreed that it would consider the key issues of the consultation paper by theme rather than considering each of the consultation questions in turn. In

terms of the overall thrust of the paper and the future of local public audit, Members considered it was important that the Council was clear about what it wanted from its external audit function in the future. They did not want to lose the particular knowledge and understanding of local context that the current audit arrangements offered, along with the common working practices across Kent and that would be an important criterion for potential auditors. One of the key intentions of the paper was clearly to save money and increase competition which was understood, however there was a need to maintain the quality of audit that the Council currently had. Members agreed with the suggested response that whilst the principles of the consultation were sound, the paper arguably fell short of meeting those principles. Proposals for Audit Committees comprising a majority of non-elected Members were seen as unnecessary and a step too far and that some of the proposals for Audit Committees were inconsistent with the principle of Localism. The paper seemed to conclude that independently controlled Audit Committees were needed to maintain balance, and whilst the Council did not support this view, there would be a need to respond pro-actively and consider how it would address points about "independence". Discussion on each of the key themes of the paper is grouped together below under sub-headings: -

Regulation of Local Public Audit

The Committee agreed that the National Audit Office was the most appropriate organisation to produce an Audit Code of Practice and that the Financial Reporting Council should maintain and review the Register of Statutory Local Public Auditors. The Committee discussed the whole issue of Public Interest Entities (PIEs) and considered there needed to be a better understanding of these and the impacts for public bodies and auditors before responding.

Commissioning of Local Public Audit Services

Was the proposed system of rotation, with a competitive appointment process every five years and the requirement to appoint a different audit firm after ten years, too onerous? The Committee understood the desire for independence and relationships not becoming too close, but this did seem overly strict and there was a danger that the Council would have to rotate to an audit provider it did not want.

Proposals for new Audit Committees

It was quite surprising that there was currently no legal requirement for a Local Authority to have an Audit Committee, but the proposals within the paper would make this a statutory requirement. A possible Committee structure was set out in the paper which would have a radical impact on the way Ashford's Audit Committee was constituted and operated. It proposed a majority of Members of the Committee who were non-elected to the local public body and that Committee Chairs and Vice-Chairs would both be independent of the local public body (i.e. not elected Members). The Committee agreed it would be important to challenge this notion as there appeared to be no justification for it and it showed a lack of appreciation for what the Committee did. Members had already agreed the principle of potentially co-opting Independent Members to the Committee, but it was considered that the principle of Localism should permit Local Authorities to determine the level on non-

elected representatives for their Audit Committees as well as whether the Chair or Vice-Chair should be a non-elected or elected Member, so they could not support the options listed in the paper. It was important for the Committee to be publicly accountable by way of elected representatives and for a Chairman have knowledge of Council decisions. Audit Committees should be viewed very differently to Standards Committees. It was considered that one or two Independent Members could be a useful supplement to the Committee, but only as co-opted non-voting Members. In terms of the Committee's role, Members favoured the narrower mandatory duty with the Council having discretion to decide what other functions or duties to allocate to the Committee.

Scope of External Audit and the Work of External Auditors

The paper explained that public sector bodies were subject to audit with a wider scope than in the private sector, including, for example, value for money and legality issues. It presented four possible options for the scope of the external audit of Councils and the Committee expressed a preference for Option 2 in the paper. The more narrow remit outlined in Option 1 might well offer a cheaper alternative, but it was likely that the work would not be of the same quality and would lead to things having to be picked up elsewhere (perhaps by Internal Audit). The Committee would also like to see the Value for Money assessment retained which was part of Option 2 but not Option 1. There was not general support for the requirement for the Council to prepare and publish an Annual Report to be reviewed by the Auditor, as outlined in Option 4. However there was a recognition that the Council had to consider transparency and how it may provide assurance to residents about value for money and the strength of its governance arrangements.

Arrangements for Smaller Bodies (e.g. Parish Councils)

The implication of the paper seemed to be that a responsibility would be placed on the County Council to monitor the appointments of Independent Examiners to Parish Councils and other relevant smaller bodies (with a turnover of less than £6.5m). The consultation paper made no reference to a possible role here for District Councils, but it was considered that this may be too onerous for the County Council and they may be too far removed from the day-to-day issues of Parish Councils. Therefore it would be more logical for the District Councils to play this role. It would also sit more comfortably with the principles of Localism.

In terms of responding to the consultation, the Committee considered that each of the four Authorities in the Mid Kent Audit Partnership should respond separately, as a joint response may dilute the points being made. However, if there was an opportunity to review the four responses to ensure consistency where possible, that would be welcomed.

The Chairman reported that the Leader of the Council was supportive of the points made in the Officer's covering document and suggested responses.

The Deputy Chief Executive said he would produce a track changed version of the suggested response document incorporating the comments made at this Meeting for Members of the Committee and a second draft response would be considered by the

Committee at its June Meeting following wider consultation and before the final response was sent off.

Resolved:

That subject to the comments made at the Meeting, the comments made in the suggested response document form the basis of the Council's draft response to the Future of Local Public Audit consultation, and a further draft response be considered by the Committee at its 21st June 2011 Meeting.

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Agenda Item No: 4
Report To: **AUDIT COMMITTEE**



Date: **27 JUNE 2011**

Report Title: Internal Audit Annual Report 2010/11

Report Author: Brian Parsons

Summary: To consider the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Audit Partnership in relation to the Council's control environment, in the context of the Annual Governance Statement.

To decide whether the outcomes of the Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Authority, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.

Key Decision: No

Affected Wards: Not applicable

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

- Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
- Note that the only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation.
- Note the results of the work of the Internal Audit Team over the period April 2010 to March 2011 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
- Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.
- Note the improvements in control that occur as a result of the audit process.

- Consider the effectiveness of the Council's internal audit service as part of the consideration of this report, and express an opinion accordingly.

Policy Overview:	Internal Audit is a statutory service under the Accounts and Audit Regulations 2011 which state that 'the body must undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'.
Financial Implications:	None
Risk Assessment	Internal audit is a review process which evaluates the adequacy of the controls that management has put in place to manage the risks to the achievement of objectives. An inadequate control environment would mean that significant risks exist but they are not being managed.
Equalities Impact Assessment	No
Other Material Implications:	None
Background Papers:	Internal Audit Reports
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Report Title: Internal Audit Annual Report 2010/11

Purpose of the Report

1. The principal objective of the Internal Audit Service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council. The results of the work allow an opinion to be formed on the overall adequacy and effectiveness of the Council's control environment.
2. The report allows Members to consider the outcomes of the work of the Internal Audit Team over the financial year 2010/11 and the opinion of the Head of Internal Audit in relation to the Council's control environment, particularly in the context of the Annual Governance Statement.

Issue to be Decided

3. Members are asked to:
 - Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
 - Note that the only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation.
 - Note the results of the work of the Internal Audit Team over the period April 2010 to March 2011 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
 - Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2010/11.
 - Note the improvements in control that occur as a result of the audit process.
 - Consider the effectiveness of the Council's internal audit service as part of the consideration of this report, and express an opinion accordingly.

The Annual Internal Audit Report

4. The statutory Code of Practice for Internal Audit in Local Government in the United Kingdom requires that the Head of Internal Audit must provide a written report to those charged with governance, timed to support the Annual Governance Statement.

5. The Annual Governance Statement has been compiled and appears elsewhere on the agenda for this meeting.
6. The Head of Internal Audit's annual report to the organisation must:
 - Include an opinion on the overall adequacy and effectiveness of the organisation's control environment
 - Disclose any qualifications to that opinion, together with the reasons for the qualification
 - Present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
 - Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
 - Compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and targets
 - Comment on compliance with the standards (the Code of Practice) and communicate the results of the internal audit quality assurance programme.
7. The Accounts and Audit Regulations 2011 also require that the Council 'must, at least once a year, conduct a review of the effectiveness of its internal audit'. It is considered that this report provides evidence of the effectiveness of internal audit and the Committee is therefore asked to treat consideration of this report as 'the review'.

The opinion on the overall adequacy and effectiveness of the Council's control environment

8. It is the opinion of the Head of Internal Audit that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council. The evidence to support the opinion is contained within this report.

Any qualifications to that opinion, together with the reasons for the qualification

9. The only qualification to that opinion is the need to make better use of risk management and to embed risk management within the organisation as, at the present time, risk management is underdeveloped.

A summary of the audit work from which the opinion is derived

10. The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year. However, the following factors have also been considered:
 - The results of external audit work during the year and any concerns expressed by the External Auditor
 - The effectiveness of the Council's risk management arrangements
 - Significant control breakdowns during the financial year, whether they were found by Internal Audit or not
 - The results of any form of external inspection or assessment, and:
 - The effectiveness of senior management in resolving control weaknesses.

Internal Audit work

11. Twenty two audit projects were completed between April 2010 and March 2011 and are listed at Appendix A. This is 81.5% of the original audit plan. The appendix shows the control assurance for each audit.
12. Four projects completed during the year did not include a control assurance assessment as it was not appropriate to the projects. These were work on the Audit Commission's National Fraud Initiative, the Tenterden Improved Project and the work that is carried out twice a year to validate the accuracy of the Interreg claim – this represents two separate audits.
13. The work of the Internal Audit Team has established that for the majority (66%) of the areas examined, satisfactory controls were in place at the time of the original audit. Where weaknesses have been identified the appropriate Head of Service has agreed the action to be taken to rectify those weaknesses.
14. The external auditors have been able to place reliance on the work of Internal Audit.

The results of external audit work during 2010/11

15. The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2010/11 shortly. Internal Audit has met with the Audit Commission's Audit Manager and Principal Auditor several times during 2010/11 and no issues have been raised which would give concern in relation to the Council's internal controls.
16. The external auditor's Annual Audit and Inspection Letter for 2009/10 (which was reported to the meeting of the Audit Committee on 14 December 2010), acknowledges continued improvement. There was an unqualified conclusion about the Council's arrangements to secure value for money and an unqualified opinion on the Financial Statements. The letter confirms that there were adequate arrangements in place for risk management and internal control.

The effectiveness of the Council's risk management arrangements

17. It is my view that the Council's risk management arrangements are in need of improvement. Although there has been a process in place to identify strategic risks in the past, the process has not really trickled down into operational risk registers.
18. It is considered that the strategic risk register needs a complete refresh and a new approach is required to ensure that operational (service) risk registers are in place and that project risk assessment is carried out effectively.
19. Following the creation of the Internal Audit Partnership in 2010, the arrangements for coordinating risk management and putting in place consistent practices was passed to the Partnership.
20. A paper will be provided to the Audit Committee later in the year proposing the way forward for risk management over the coming years. It is intended that risk management will become embedded and will become a basic management skill for Heads of Service and service managers.
21. Unfortunately, at the present time, the risk management arrangements that are in place do not provide any specific assurance in relation to internal control.

Significant control breakdowns during the financial year, whether they were found by Internal Audit or not

22. There were no significant control breakdowns during 2010/11.

The results of any other form of external inspection or assessment

23. There have been no governance or control based external inspections or assessments during 2010/11, other than the normal external audit work and the review of the Audit Committee by Local Government Improvement and Development (LGID). The report arising from the LGID peer review has been considered by the Committee and a number of agreed actions will be implemented during 2011/12. One of the agreed actions was to introduce an Annual Report by the Audit Committee; this is the subject of a separate report elsewhere on the agenda.

The effectiveness of senior management in resolving control weaknesses

24. Heads of Service are required to respond to every audit report where recommendations are made, by completing an action plan which sets out the action that will be taken to address the audit recommendations. The response is assessed for adequacy; to ensure that the proposed actions are sufficient and that any weakness will be addressed within a reasonable period.
25. Six reports were issued during 2010/11 relating to areas where a limited or control assurance was assessed as being in place. The responsible Head of Service subsequently completed an action plan setting out comprehensive and timely actions to address the audit recommendations.

26. Internal Audit carries out a follow-up to each audit to ensure that the actions have been taken in practice.
27. Based on the generally prompt and positive responses received from senior management and the results of follow-up work, it is considered that senior management is effective in resolving control weaknesses.

Issues that the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement (AGS)

28. The opinion of the Head of Internal Audit on the internal control environment is particularly relevant to the preparation of the Annual Governance Statement. In that context, the AGS should note the opinion of the Head of Internal Audit that:

“Substantial reliance can be placed on the Council’s control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council.”
29. However, as previously stated, the current arrangements for risk management are in need of improvement and this is an issue relevant to the AGS.

Performance of the internal audit function against its performance measures and targets

30. The internal audit function has three internal performance targets. The targets are:
 - Completion of the annual internal audit plan (90% target)
 - Percentage of chargeable time (i.e. time spent on planned audit work – the target for the operational auditors is 85%)
 - Achievement of customer care targets (85% positive response target)
31. The target for completion of audit projects within the internal audit plan for 2010/11 was 27 projects. This has to be achieved through the completion of twelve projects by each operational auditor. The auditor resource is 2.25 fte resulting in the target of 27 for 2010/11.
32. In practice the number of projects completed during 2010/11 was 22, which is 81.48% of the target. Although this is a little disappointing, it must be seen in the context that 2010/11 was the first year of the new audit partnership and a certain amount of time had to be invested in integrating systems and procedures,
33. Customer surveys are issued to clients following each internal audit to assess satisfaction with the audit process. In addition, an annual survey of Heads of Service is carried out in order to obtain responses on the quality of internal audit, perceptions of auditor skills and the value of audit reports. The annual survey will be carried out during late June with the results being reported to a future meeting of the Committee.

Compliance with the CIPFA Code of Practice and the internal audit quality assurance programme

34. The Code sets out the standards that the Internal Audit team has to comply with in order to meet the statutory requirement. A copy of the code has been provided to each auditor. The Code contains a checklist which allows a self assessment of compliance with the code to be carried out.
35. On the basis of a self assessment of compliance with the code and on comments made by the external auditor, it is considered that the work of Internal Audit at Ashford is in accordance with the Code of Practice.
36. A detailed Internal Audit Manual is in place.
37. A comprehensive internal audit quality assurance programme is in place to:
- Ensure that work is allocated to auditors who have the appropriate skills, experience and competence
 - Ensure that all staff are supervised appropriately throughout all audits

The supervisory process covers:

- Monitoring progress
 - Assessing quality of audit work
 - Coaching staff
38. The quality assurance programme is maintained through the ongoing review of reports and working papers by the Audit Manager and the Head of Audit Partnership and through adherence by all members of the audit team to the Audit Manual and the Code of Practice.

Assurance levels

39. Internal Audit use 'assurance levels' or assurance statements to provide the overall audit opinion for the service or area that has been reviewed. The use of an assurance level is consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. There are four assurance levels, as set out at Appendix B. The consistent use of assurance levels allows a balanced view to be taken of the overall adequacy of control within the Council.
40. In the financial year 2010/11, a total of eighteen audit reports included an assurance assessment for the area that had been audited (four did not). The initial assurance assessments were categorised as follows:

High	1
Substantial	11
Limited	6
Minimal	0
Not given	4
Total	22

41. The collective assurance level, which can be extracted from the audit work performed during 2010/11, provides considerable evidence to support the statutory Annual Governance Statement, with 66% of the reports having a positive assurance assessment identifying control assurance as 'substantial' or 'high' at the time of the audit.

Reporting of Internal Audit work to the Audit Committee

42. Internal Audit work has been reported on an annual basis to the Committee in the past. However, it is intended that, in future, an interim report, showing the first six months work of the financial year will be provided to the Audit Committee meeting in December.

Mid Kent Internal Audit Partnership

43. The four-way Internal Audit shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells came into being on 1 April 2010. Since that time a considerable amount of work has been done in order to embed the arrangements.
44. The Ashford Audit Team has worked with the Maidstone team to help to introduce the ICT audit management system, Team Mate, at Swale and at Tunbridge Wells and have also been involved in providing training.
45. The partnership has introduced a 'share-point' site, which allows auditors across the four sites to share electronic audit libraries, work programmes and the audit manual.
46. The four-way team provides resilience in terms of the two on-site Ashford auditors being part of a bigger overall team. In addition, the auditors from the four teams can carry out an audit on any of the four sites where it is efficient and effective to do so. There was some movement between sites in the first year of the partnership (2010/11), however this will be increased significantly during the current financial year.
47. Feedback on the first year of the Partnership has been positive at all four Councils.

Other issues - Staffing

48. The team of operational auditors during 2010/11 comprised of 2.25 full time equivalents (FTE). Each auditor was expected to complete twelve audit projects during the year. This meant that the Audit Plan totalled 27 projects. The 0.25 post has previously been filled by employing an audit contractor to work for three months each year.
49. As a result of the need to reduce costs for 2011/12, the budget for the 0.25 auditor post has been deleted. This has the effect of reducing the audit plan by three audit projects, to twenty four, per annum. While the team is still able to provide a good service, audit resources are clearly limited.

50. Under the partnership arrangement, the extent of audit management for the Ashford audit service is now the equivalent of 0.5 FTE. The management resource is used for audit planning, review of audit reports, supervision, risk management, strategic management and reporting to the Audit Committee and to the Management Team.
51. The total staffing establishment for Internal Audit at Ashford is therefore 2.5 FTE. It is considered that any further reduction in the establishment would bring the statutory duty to 'undertake an adequate and effective internal audit', into question.

Risk Assessment

52. Internal audit is a review process which evaluates the adequacy of the controls that management has put in place to manage the risks to the achievement of objectives. An inadequate control environment would mean that significant risks exist but are not being managed.

Equalities Impact Assessment

53. Not applicable.

Other Options Considered

54. Internal Audit is a key component of the Council's internal control arrangements and is a contributor to the Annual Governance Statement. Members need to be aware of the control issues that have been identified by Internal Audit and of the view of the Head of Internal Audit on the adequacy of the Council's control environment. No other options could be recommended.

Consultation

55. The Annual Internal Audit Report has been circulated to Management Team for comment. Individual audit reports are provided to the respective Head of Service for consideration and implementation. The Head of Service is also made aware of the narrative that will be used to report the audit to the Audit Committee. Client views are sought generally in terms of the detailed elements of the internal audit service and specifically in relation to individual audit reviews.

Implications Assessment

56. Internal Audit is a statutory requirement for significant local authorities. Internal Audit work can impact on staff in terms of issues arising from audit reviews. A substantial element of internal audit work is based around the review of financial systems and controls.

Handling

57. The Audit Committee is asked to agree the recommendations contained in this report so that the Head of Internal Audit's opinion can be considered as part of the review of the Annual Governance Statement.

Conclusion

58. The Head of Internal Audit has concluded that a substantial level of internal control exists within the Council's systems and procedures.

Portfolio Holder's Views

59. A welcome report showing the high quality of the work of our Internal Audit Team, coupled with that of the Audit Committee. Clearly there are still issues over our work on risk assessments, especially those for partnerships. However, this is more for the Audit Committee itself to follow up in the coming year.

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Audit Projects completed between 1st April 2010 and 31 March 2011

Service: Personnel & Development

Audit Title Payroll

Issued Date April 2010

Audit Scope: The audit set out to evaluate and test the adequacy and effectiveness of the key controls to the payroll system. The audit considered a number of areas including, the management of the payroll function, starters, leavers, variations to pay, deductions and BACS payment procedures. The audit also considered the robustness of the payroll computer system, Midland Delphi, which is now 10-years old.

Findings: Good controls are in place over the submission, authorisation and input of payroll data into the system. However, the audit identified that:

- Checking and evidencing input is not undertaken in a consistent basis.
- Individual BACS payments over £20,000 need to be countersigned (for example, redundancy payments, payments to Kent County Council re pensions, and payment to Revenues and Customs)

The audit established that reconciliations are undertaken between the payroll computer system and the general ledger (eFinancials) on a timely basis. Testing in this area confirmed the accuracy of the transfer of data between the two systems and that the reconciliations are appropriately reviewed by the Finance Manager.

The payroll computer system, Midland Delphi, was implemented in April 2000. The age of the system means that it is vulnerable to not being supported in the longer term and it is recommended that management explore the options for the future delivery of the payroll service.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All recommendations have been accepted by management, the majority of which were implemented immediately.

Service: Deputy Chief Executive

Audit Title Ashford's Future Partnership – Growth Area Funding

Issued Date April 2010

Audit Scope: The audit set out to establish the adequacy of the governance and programme management arrangements which were put in place to support delivery of the Authority's Growth Area objectives, the Council's role as a founding partner of the Ashford's Future Partnership Board and its responsibilities as 'accountable body' for GAF funds.

Findings: The audit confirmed that partnership agreements and service level agreements controlling the strategic management of the partnership board and governing body were generally sound.

Concerns relating to financial and programme performance monitoring and management reporting and the authorisation of funding agreements were outstanding at the time of reporting and were receiving appropriate management attention.

Ten recommendations were made for management attention.

At the time of the audit, the Council's growth and infrastructure objectives were being progressed and objectives were being reviewed within the period of economic uncertainty prior to the 2010 General Election.

Assurance Assessment at the time of the audit:

Limited

Management Response:

All of the recommendations were accepted and the actions were planned to be implemented by September 2010. However, the proposed action was overtaken by events and the Ashford's Future Company has since been wound down.

Service: Environmental Services

Audit Title Ashford Monitoring Centre (AMC)

Issued Date June 2010

Audit Scope: The audit considered the systems and procedures in place which support CCTV monitoring, the AMC budget and how some of the activities are treated and recorded within the cost centre for the service.

Findings: The audit found that strong controls are in place for the operation of CCTV, which is underpinned through a quality management system, independent audit inspections and vetting checks for monitoring centre staff.

The budget for the AMC should be restructured to better align it to ongoing business activities. A budget for recharges to Housing was within the wrong cost centre and required correction.

There were opportunities to increase recharges or pass on costs which would reduce the bottom line operating cost of the Monitoring Centre. A proportion of any increased recharge would relate to the housing revenue account (HRA).

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the audit recommendations are agreed; to be implemented by November 2010

Service: Financial Services

Audit Title General Ledger – Budgetary Control

Issued Date July 2010

Audit Scope: The audit set out to establish whether the Council's budget setting process is robust, whether support service costs are appropriately calculated, and whether savings identified as part of the 2010/2011 budget setting process had been appropriately reported and assigned.

Findings: A substantial level of control assurance is provided by the controls in place for setting and approving budgets, including the reporting and ownership of proposed savings. However, there is a need for better communication and guidance between Accountancy and Budget Holders to ensure that they feel fully engaged in the budget setting process and take ownership of their budgets.

Assurance Assessment at the time of the audit:
Substantial

Management Response:

The audit recommendations are accepted and will be implemented as part of the 2011/2012 Budget Setting Process.

Service: Revenues and Benefits

Audit Title Council Tax – Valuation, Liability and Billing

Issued Date July 2010

Audit Scope: The audit considered controls in place for valuation, liability and billing of Council Tax. Specifically the audit considered and tested if property valuations are correctly updated on the Council Tax system, whether discounts and exemptions had been correctly applied and if the billing arrangements for 2010/11 were sound.

Findings: It was found that:

- New properties are appropriately added to the Council Tax system.
- The Council Tax system is appropriately and regularly updated from schedules received from the Valuation Office. Sound procedures are in place to reconcile property totals on the Council Tax system with those of the Valuation Office.
- The testing undertaken on accounts in receipt of discounts and exemptions confirmed, in all cases, that there was evidence on file to support the award of the discount/exemption.
- The main billing exercise was soundly performed and included appropriate checks and supporting evidence to control the input of the Council Tax resolution for 2010/11 and the debit adjustment to the system. In addition, controls were in place to reconcile the number of demand notices issued from the main billing exercise which were mailed in time to ensure the statutory requirements were met, so that collection could start on the 1st April.

Assurance Assessment at the time of the audit:
High

Management Response:

The one recommendation from the audit is accepted and a review will be undertaken on the arrangements for verifying the entitlement of Single Person Discount. This review will follow the data matching exercise with Capita.

Service: Corporate Review

Audit Title Interreg Project - Mosaic

Issued Date July 2010 and January 2011 (Note; this represents 2 separate audits)

Audit Scope: The Council is a participant in the 'Mosaic Project', which is led by the Kent County Council and will provide a detailed socio-economic map of the County to assist resource planning and to focus service delivery. The project is part of an initiative involving the 2 Seas Cross-boarder Co-operation Programme involving the French Nord-Pas de Calais region, the south coast of England and the Dutch and Flemish coasts. The project deals with economic, environmental and social issues. The activity will receive up to 50% funding from the European Union. Ashford Borough Council's contribution to the funding will be through the time that officers spend developing the project. This means that detailed time sheets have to be completed for all aspects of the work and the time sheets and other records have to be meticulously checked by Internal Audit. Submissions (claims) are made to Kent County Council every six months.

Assurance Assessment at the time of the audit:

The audit work consisted of checking the documents and the calculations relating to the two claims that were submitted to Kent County Council during 2010/11. It was not an audit of the controls relating to the project and it was not therefore appropriate to make a controls assurance assessment.

Management Response:

No report was issued – no response is required

Service: Corporate Review

Audit Title National Fraud Initiative (NFI) 2010/11 Interim Audit

Issued Date October 2010

Audit Scope: The National Fraud Initiative is a biennial data matching exercise carried out by the Audit Commission. The Council is required to submit a broad range of data which is then matched against other data sets that the Audit Commission has obtained from a number of sources. The data sets provided to the Commission are Benefits, Payroll, Housing Rents, Right to Buy, Creditors (standing data and history), Residents Parking Permits, Concessionary Fares, Licensing and Insurance claims. The audit sought to confirm that data owners had commenced action on investigating the data matches that relate to their area of responsibility; and to provide a position statement to the Deputy Chief Executive as the responsible financial officer (Section 151 Officer).

Findings Internal Audit continues to be the 'Key Contact' for the NFI exercise which includes coordinating and monitoring progress of investigations, ensuring the

Council complies with the Code of Data Matching Practice, disseminating information from the Commission in relation to the NFI exercise and administering access to the secure web site. In total, for Ashford 1717 data matches were identified by the Audit Commission from the data submitted. The interim audit established that solid progress had been made in terms of investigating the matches.

Assurance Assessment at the time of the audit:

Not assessed. The Internal Audit work on the NFI is primarily to facilitate the process. Therefore, it was not considered to be appropriate to provide an 'audit opinion' on the process.

Management Response:

Not applicable – the report was primarily provided (to the Deputy Chief Executive) for information purposes.

Service: Corporate Core – Strategy, Partnerships and Communications team

Audit Title Grants to Outside Bodies

Issued Date October 2010

Audit Scope:

- To evaluate the grant scheme procedures
- To test a sample of grants awarded during 2009/10 to consider compliance with the agreed procedures
- To establish and evaluate the follow up procedures to ensure that the grant money is spent in accordance with the grant scheme and as stated in the application.

Findings

- The budget reports to the Community Grants Panel three times a year are not always complete or accurate, for example, reports do not always incorporate amounts carried forward from a previous year's under-spend.
- Grant money was being paid out more than 12 months after the date of award. The scheme stated that applicants have up to 12 months to claim the grant monies awarded. However, in one case a grant of £5k was paid out more than 7 years after the grant was awarded
- Grants of less than £1000 could be approved by the Head of Cultural and Project Services or the Assistant Head but these grants were not always reported to the Community Grants Panel. This meant that the Grants Panel were not fully aware of all of the grants being awarded and the impact on the available budget.
- The Community Grant Fund database was not maintained in a timely manner. This, therefore, limited the database's usefulness as a budget monitoring tool.

Assurance Assessment at the time of the audit:

Limited

Management Response:

The management response is considered to be fully adequate.

All of the recommendations have been fully accepted and in some cases the actions were taken immediately. The majority of the recommendations were due to be fully implemented by the end of April 2011. A number of changes were made to the grants to outside bodies' arrangement through the implementation of the Single Grants Gateway.

Service: Housing Services

Audit Title Housing Service Charges – Major Works

Issued Date November 2010

Audit Scope: The audit set out to establish that effective controls were in place for the notification and invoicing of major works to the Council's leaseholders. The audit also considered the new Discretionary Loans Policy re major works service charges, which was approved by the Executive on the 8th April 2010. This aimed to provide assistance to leaseholders in paying major works invoices.

Findings: The arrangements in place for notifying leaseholders of major works are in accordance with legislation, which ensures that charges can (legally) be appropriately recovered. In terms of the Discretionary Loans Policy regarding Major Works Service Charges, there was a need to ensure that the implementation of the Policy is effectively communicated to all officers involved, with responsibilities clearly assigned to enable the effective development of processes and procedures.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

The recommendations were accepted; to be implemented in a timely manner.

Service: Personnel and Development

Audit Title Expenses Claims

Issued Date November 2010

Audit Scope: The audit reviewed subsistence and mileage claims paid via payroll; the rates paid, and compliance with the Staff Code of Conduct Handbook. The audit also considered Petty Cash and Corporate Credit Card claims.

Findings: The payment of expenses, made through the payroll system, was found to be correct and in accordance with NJC guidelines and the limits prescribed in the Code of Practice. No significant errors were found from a sample of 50 expenses claims that were tested as part of the audit.

No areas of significant concern were identified when reviewing Petty Cash or Corporate Credit Card claims.

The audit made six recommendations which included circulating a reminder to staff that claims should be made on a monthly basis and on the official form, a

process should be put in place to allow VAT on mileage claims to be reclaimed, and a review of the entitlement to the various car schemes operated by the Council (Leased car or Cash Alternative schemes) should be carried out to confirm current eligibility and need.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

Five of the six recommendations are accepted; to be implemented by the end of March 2011. A review of all benefits including lease cars entitlement will be carried out as part of an overall review of pay and benefits in 2011/12.

Service: Revenues and Benefits

Audit Title National Non Domestic Rates

Issued Date December 2010

Audit Scope: The audit reviewed the procedures in place to ensure that the Council is in compliance with statutory regulations for valuation, liability, billing, collection, accounting, recovery and reliefs. The audit also set out to identify, document, evaluate and test the key controls surrounding the NNDR system.

Findings: The day-to-day tasks surrounding the administration of NNDR is undertaken by Canterbury City Council (CCC) under a shared services agreement. The audit concentrated on the procedures and controls operated at the Ashford offices (in the context of how they inter-relate to the processes carried out by CCC).

Procedures for the maintenance and updating of system parameters were reviewed and tested during the audit, which confirmed that all of the expected controls were present and being consistently applied, with the exception that no record is being maintained to show which officer made a change to the system and which officer checked that the change was correct.

Meaningful and reliable reconciliation procedures are in place to ensure that all receipts are correctly recorded in the NNDR and Main Financial Systems.

Some delays were evident in the actioning of Valuation Office updates by CCC staff. The Service Level Agreement between the two Councils' was reviewed and it was found that no timescale for the updating of schedules is prescribed in the agreement.

It was established that approximately 700 accounts had a credit balance; testing of a small sample of these accounts established that some balances had been in place since the start of the financial year. A recommendation was made that all accounts with a credit balance are reviewed on a quarterly basis and wherever practical, refunds are made to the account holder.

Review of reliefs and exemptions identified that sound controls are in place to publicise the potential availability of reliefs and ensure that only those applicants meeting the relevant criteria are granted the relief.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and will be implemented.

Service: Financial Services

Audit Title Creditors

Issued Date December 2010

Audit Scope: The creditor payments system is a fundamental financial system and as such is subject to regular review by Internal Audit. The audit was a full 'systems based' review, i.e. encompassing all of the key processes which make up the creditors system and assessing the adequacy of the controls for each process. The CIPFA System Based Auditing Control Matrices were used as a basis for testing the controls in place.

Findings: The audit found that sound controls are in place for the creation of new users, access controls to the system and raising purchase orders.

The audit makes four recommendations the most significant being to strengthen the procedures for making changes to supplier bank account details, to coincide with the completion of the weekly creditors' payments process.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All of the recommendations are accepted and will be implemented.

Service: Corporate Review

Audit Title Use of Consultants

Issued Date December 2010

Audit Scope: The audit set out to establish whether the 'guidance/rules' on engaging consultants, which had been endorsed by the Executive in November 2008 had been incorporated into Contract Procedure Rules, embedded within the organisation, and was being complied with.

Findings: It was concluded that the arrangements in place for engaging consultant had not become embedded within the organisation, and was not being fully complied with.

Assurance Assessment at the time of the audit:

Limited

Management Response:

The recommendations were accepted; to be addressed in a timely manner.

Note: The report relating to this audit was provided to the Overview and Scrutiny Committee meeting on 22 March 2011 as part of an inquiry by the committee into the use of consultants. The Head of Audit Partnership and the auditor attended the meeting to answer questions. The Committee has requested a further report from management.

Service: Personnel and Development

Audit Title Training

Issued Date December 2010

Audit Scope: The audit focused on how the outcomes from staff appraisals are translated into training programmes, which include professional qualifications and the delivery of corporate training initiatives such as Health and Safety, and Investors in People (IIP).

Findings: The Council introduced a central training budget in 2010 to facilitate the co-ordination of spend and to ensure value for money from the training budget.

The audit found that the processes in place work satisfactorily; however recommendations were made to strengthen the processes further, including:

- Better promotion of the Corporate Training Plan and giving consideration to introducing a training calendar on the Intranet outlining corporate training opportunities
- A standardised evaluation process for the selection of training providers
- Using the 'zero usage report' to remind members of staff and managers to complete mandatory training
- Maintaining comprehensive records of all officers undertaking training leading to a formal qualification

Assurance Assessment at the time of the audit:

Substantial

Management Response:

Nine of the 11 recommendations are agreed; the majority to be implemented by June 2011.

Service: Planning and Development (Economic Development)

Audit Title Tenterden Improved Project

Issued Date January 2011

Audit Scope: The 'Tenterden Improved' project sought to improve unattractive areas of the town, especially points of arrival and in the High Street to develop a number of initiatives to encourage visitors and boost the local economy. The scope of the project included the refurbishment of Station Road car park, a new paved forecourt to the Town Hall and new finger post signage and heritage railings. In addition a number of events were held to promote the town.

Findings: The project was funded through a number of sources, most notably SEEDA through the old Channel Corridor Partnership and the Kent Rural Towns Partnership. The audit comprised of checking the grant claims made under

the project to ensure that all sources of funding had been received and that expenditure had been properly incurred within the scope of the project. The audit confirmed the correctness of the claims made from quarter four 2006/07 to quarter three 2010/11 and found the project files to be generally sound and well supported with only minor errors being identified for correction.

Assurance Assessment at the time of the audit:

The audit work consisted of checking the documents and the calculations relating to the quarterly claims. It was not an audit of the controls relating to the project and it was not appropriate to make a control assurance assessment.

Management Response:

No report was issued – no response is required

Service: Corporate Core

Audit Title Property Management - Income

Issued Date January 2011

Audit Scope:

- To identify, document, evaluate and test the key controls surrounding Property Management in respect of leases, from the commencement of the lease through to the cessation of the lease.
- To gain assurance on the controls in place surrounding the maximisation of income, including the processes for the recovery of income.
- To evaluate the partnership arrangements in place with Swale.

Findings: The Property Strategy covering the period 2009 – 2012 was reviewed as part of the audit. It was found that the strategy had not been approved by Members. It was apparent that numerous parts of the Strategy were out of date at the time of the audit. A recommendation was therefore made that the Head of the Swale and Ashford Property Partnership reviews and updates the Strategy prior to submitting it Management Team and to Cabinet for approval.

Initial testing of a sample of 15 leases identified that a number had expired and had not been renewed. Further testing of expired leases identified that, from a total of 66 leases currently on file, 21(31.81%) leases had expired and were being 'held over'. While some leases had recently expired, a number of leases were found to have expired more than 2 years previously.

A suitable balance was being maintained by the Property Manager and Senior Income Officer to ensure a balance between maintaining occupancy rates and keeping rent arrears at an acceptable level.

The report recommends that all new lease agreements should contain a condition that payments in respect of rent must be made by standing order or direct debit.

Subsequent to the audit, the partnership with Swale ceased and responsibilities for property management income management were consolidated within the Housing Section.

Assurance Assessment at the time of the audit:

Limited

Management Response:

Action is being taken to address all of the recommendations; which will be implemented by the time the follow-up audit is carried out.

Service: Housing

Audit Title Rent Accounting – Arrears and Voids

Issued Date January 2011

Audit Scope: The audit reviewed the arrangement for the management and reporting of arrears and void times. In addition the process for calculating the 2010/11 debit, including verifying the balances brought forward from the previous year, was considered together with the controls in place for accounting and reconciling income received.

Findings: It was confirmed that prompt recovery action is taken in accordance with the approved organisational policy to recover outstanding rent arrears as soon as the account goes into an arrears position. This has resulted in collection rates continuing to remain high despite the economic downturn. Suitable processes ensure that arrears collection rates are reported at regular intervals to management and the Executive as part of the Housing Services Quarterly Performance Reporting regime.

However, a number of controls were absent regarding the authorisation of write off's and the monitoring and minimisation of accounts with a credit balances.

Assurance Assessment at the time of the audit:

Substantial

Management Response:

All four recommendations are accepted and will be implemented by April 2011

Service: Business Change and Technology

Audit Title ICT Access Controls

Issued Date February 2011

Audit Scope: The audit set out to gain assurance that the Council has appropriate policies and procedures in place to protect data, and that access to key systems is being appropriately controlled.

Findings: Corporate policies covering Information Security were in place. However, they had not been updated since 2001 and there was only minimal monitoring of compliance with the policies.

Key systems (applications) within the Council were found to have good controls over user access, with frequently changed passwords and hierarchical structures in place. Agreements/contracts covering information

security/confidentiality are generally in place for third party access to Council Systems.

Assurance Assessment at the time of the audit:

Limited

Management Response:

All but one of the recommendations is accepted and will be implemented in a timely manner.

The recommendation regarding the creation of an information asset register is desirable although resources are not available at present to complete this. Further consideration will be given to this pending the consultation on the 'Code of recommended practice for local authorities on data transparency'.

Service: Environmental Services

Audit Title Car Parking Income

Issued Date March 2011

Audit Scope: The audit set out to evaluate the controls for the collection, reconciliation and banking of income from car parks and on-street parking. The audit also considered the arrangements to monitor the cash collection contract.

Findings: The audit established that regular meetings take place between the Operations Manager Parking Services and the Service Accountant to monitor income levels and revise estimates accordingly within the Council's budget monitoring system. Parking usage and income figures are provided to Cabinet on a quarterly basis. Pay and Display machines are regularly maintained and the charges displayed on the pay and display tariff boards are correct. Reconciliation between actual amounts collected, audit tickets and accumulative machine totals are effective and regular. However, a further reconciliation to money banked according to eFinancials should be introduced. The need for an up-to-date operational risk register was highlighted as part of the audit.

Assurance Assessment at the time of audit:

Substantial

Management Response:

The recommendations are accepted and will be implemented.

Service: Environmental Health

Audit Title Grounds Maintenance Contract

Issued Date March 2011

Audit Scope: The audit set out to establish and evaluate the processes and working practices in place governing the following key areas of the Council's Ground Maintenance Contract: -

- The management and monitoring of the Contractor in delivering the expected service
- Performance of the service and contractor
- Control of expenditure; budgetary control and payments

Findings: The day to day procedures for managing and administering the contract have remained predominantly manual and unchanged since the previous audit in 2008. Several weaknesses highlighted in the previous audit and its follow-up had still not been progressed at the time of the current audit. In particular there has been a lack of development of the Down to Earth system as a key means of improving process and efficiency over the operational management of the contract. Therefore, it is recommended, once again, that management undertake an appraisal of the Down to Earth system to establish how the system can be utilised to manage the grounds maintenance contract more effectively, provide efficiencies, improve the level of information from monitoring and enhance the performance of the service. This appraisal should also consider the broader ICT contract management needs within the Street Scene and Open Spaces Team.

Other recommendations include

- An annual review of the Activity / Frequency programme to consolidate changes to the contract made during the course of the year; and to agree the scope of the works to be performed during the next contract year
- The need for better recording and monitoring of complaints
- The monitoring of Health and Safety working practices.

Assurance Assessment at the time of audit:

Limited

Management Response:

The recommendations are accepted and will be implemented.

Service: Finance (Revenues and Benefits)

Audit Title Housing Benefit Payments

Issued Date March 2011

Audit Scope: The audit set out to evaluate the controls over the payment of Benefits. This included the process for amendment of Housing Benefit bank details, and the need for appropriate reconciliations to be in place between the Benefit System, BACS Payments system, and ArcHouse, the Councils Rent Accounting system

Findings: Strong processes are in place over the arrangements for Benefit payments, which provide a substantial level of control assurance. One recommendation was made in relation to returned BACS payments and their recording within the Revenues and Benefits system.

Assurance Assessment at the time of audit:

Substantial

Management Response:

The recommendation is accepted; processes will be changed to address this recommendation.

APPENDIX B

Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an **assurance level** within four categories. The use of an **assurance level** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

Controls Assurance Level	Summary description	Detailed definition
Minimal	Urgent improvements in controls or in the application of controls are required	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control or there is evidence that there is significant non-compliance with key controls.</p> <p>The control arrangements are of a poor standard.</p>
Limited	Improvements in controls or in the application of controls are required	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p> <p>The control arrangements are below an acceptable standard.</p>
Substantial	Controls are in place but improvements would be beneficial	<p>There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.</p> <p>The control arrangements are of an acceptable standard.</p>
High	Strong controls are in place and are complied with	<p>The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.</p> <p>The control arrangements are of a high standard.</p>

Agenda Item No: 5
Report To: **AUDIT COMMITTEE**
Date: **27 June 2010**
Report Title: **Benefit Fraud Annual Report 2010-11**
Report Author: **Investigation and Visiting Manager**



Summary:	This report provides a brief introduction to the work of the Benefit Fraud and Visiting Team and sets out a summary of the Team's work for the financial year 2010-2011
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Key Decision: No

Affected Wards: Not applicable

Recommendations: **The Audit Committee be asked to:-** note the content of the report

Policy Overview: Not applicable

Financial Implications: None

Risk Assessment The Benefits Fraud and Visiting Team's primary role is the prevention and detection of benefit fraud and therefore it contributes to the overall risk management environment through the work it undertakes.

Equalities Impact Assessment None

Other Material Implications: None

Exemption Clauses: None

Background Papers: None

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Report Title: Benefit Fraud Annual Report 2009/2010

Purpose of the Report

1. To keep Members updated on the role of the Benefit Fraud and Visiting Team and the officers who make up the team.
2. To provide a summary of the work and activities of the Team for the Financial Year 2010/11.

Issue to be Decided

3. Members to note the report

Background

4. This is the second report to the Audit Committee relating to the work of the Benefits Fraud and Visiting Team.
5. The primary role of the team is the prevention and detection of benefit fraud. It is appropriate that the Audit Committee, under its Terms of Reference, is aware of both the role and work of this team.
6. Ashford Borough Council pays out over 30 million pounds a year in benefits on just under 10,000 claims.

The Benefit Fraud and Visiting Team

7. The Benefits Fraud and Visiting Team forms part of the Revenues and Benefits Section. The team 'establishment' comprises:

Investigation and Visiting Manager
1 x Investigation Officers
1 x Investigation Officer (Vacant Post)
2 x Generic Visiting Officers
1 x Clerical Support Officer

Working in Partnership

8. The Team works closely in partnership with several other agencies. Specifically the Council has a joint working partnership with the Pension Services who undertake visits to Ashford Pensioners 4 days a week to assess cases and entitlement of the benefit being paid. In addition the Team has a good working relationship with the Department of Works and Pensions (DWP) which ensures that all investigations are made jointly and where appropriate the correct sanction for the totality of the fraud is applied.
9. The Team works in conjunction with the Community Safety Unit, attending meetings, joining operations and sharing intelligence within the CSU meetings and whilst working from the office on a regular basis. This encompasses all

areas regarding prevention of crime and where intervention is required across the borough.

How Benefit Fraud is Detected and what was investigated in 2010/11.

10. Referrals to the team are received from a number of sources. For the financial year 2010/11 446 referrals were received from the following sources

Source	Number of Referrals
Anonymous	54
Benefits	89
Visits	28
Housing Benefit Matching Service	37
Department of Work & Pensions	72
Housing	23
Local Tax Team	9
Landlords	7
Customer Contact Centre	39
Hotline	33
Other Council Departments	15
Police	5
National Fraud Initiative	4
Other	31
Total	446

11. Of these:
- 192 Investigation files were raised.
 - 80 were rejected and referred to the DWP.
 - 66 were rejected and passed for a compliance visits
 - 108 were rejected as 'No Fraud' or 'not feasible' for investigation.
12. The Teams 'success' can be measured on the number of sanctions (cautions, administrative penalties or prosecutions) from the resulting investigation, which would also determine the value of any overpayment in benefit.
13. Overpayment of benefit is of course recoverable and this is also a very important area as it affects the level of subsidy the Council receives from Central Government. If a fraud is detected resulting in an overpayment then 60% of the amount subsequently recovered must be paid back to Central Government. The remaining 40% or part thereof can be retained by the Council and can be seen as an 'income.'
14. Fraudulent overpayments are notoriously hard to collect. The value of overpayments for 2010/11 was £948,492 with a collection rate of 78.04%.
15. A strong focus of the team is in preventing fraud, which cannot be specifically measured, but is a very important part of the Team's role. Every fraud that is stopped from entering the system reduces the likelihood of an overpayment occurring and that would need to be recovered.

16. Due to the Council's thorough procedures for assessing benefit applications, Ashford continues to have low level of overpayments compared to neighbouring authorities, resulting in less resource being required to recover overpayments.
17. Although the Council cannot publicise all it's sanctions, those cases which go to court are highlighted publically through the local press; this both raises the profile of the Team's work while sending out a deterrent message. Those cases referred to court during the 2010/11 financial year are summarised below:

Case no.	Fraud Type	Result
2481	Income/Capital	Maidstone Crown Court Overpayment >1k 100 hours Community Punishment Order and £1715.50 costs
2817	Income/Capital	Canterbury Magistrates Court Overpayment >£13k 12 mths Conditional Discharge and £700 costs
2532	Living Together	Folkestone Magistrates Court Overpayment >£26k 120 days Custodial Sentence on 2 charges
2795	Income	Ashford Magistrates Court Overpayment .£7k (including DWP benefits) Community Service and £100 costs *** CPO was revoked 3 mths later and a 2 year suspended sentence was given***
2725	Income	Ashford Magistrates Court Overpayment >£4k (including DWP benefits) 3 mths electronic tag and curfew and £100 costs
2664	Non residency	Ashford Magistrates Court Overpayment >£1k 2 years Conditional Discharge
2600	Living Together	Canterbury Magistrates Court Overpayment >£4k 100 hours unpaid work and £250 costs
2909	Childcare costs	Canterbury Magistrates Court Overpayment >£9k 18 mths Community Order and requirement to undertake supervision and £250 costs
2526	Income	Ashford Magistrates Court Overpayment >£1k £200 fine, £600 costs and £15 victim surcharge
2385	Income	Ashford Magistrates Court Overpayment >£8k (including DWP benefits) 300 hours Community Order and £80 costs
1964	Living Together	Canterbury Magistrates Court Overpayment >£10k (including DWP benefits) 140 hours Community Punishment Order and £500 costs

2219	Living Together	Ashford Magistrates Court Overpayment >£4k (including DWP benefits) 3 years Conditional Discharge and £250 costs
3059	Income	Ashford Magistrates Court Overpayment >£2k (including DWP benefits) 60 hours unpaid work
2828	Income	Ashford Magistrates Court Overpayment >£6k (including DWP benefits) Community Service and £150 costs

18. Other sanctioned cases and interesting figures from the Team's work are set out below.

No. of cautions administered	28
No. of Administrative Penalties administered	3
No. of successful prosecutions	14
Overpayments due to sanctioned cases (£)	£140,729.46
Administrative Penalties Collected (£)	£1,348.30

Data Matching - National Fraud Initiative Exercise (NFI)

19. The National Fraud Initiative is a biennial exercise run by the Audit Commission which all local authorities are required to participate in. The exercise matches electronic data within and between audited bodies (which extends to local authorities, police authorities, local probation boards and fire and rescue authorities) to prevent and detect fraud.
20. A key area from this exercise has been to highlight potential fraudulent matches relating to benefit payments. The Benefits Fraud and Visiting Team has always investigated these matches to a very high level to ensure high risk cases are dealt with accordingly and to put into place any preventative measures against fraud.
21. This exercise has identified only a relatively low level of cases where error or fraud has occurred and the results provides assurance that the procedures in place afford appropriate safeguards.

Data Matching - Housing Benefit Matching Service (HBMS)

22. The Housing Benefit Matching Service is a monthly data matching exercise provided by the Department of Works and Pensions (DWP) that matches Housing Benefit data with DWP benefit data to advise of changes to claims between the systems that may affect entitlement to Housing Benefit.

Visiting

23. The Visiting Officers make customer visits in cases that are identified as likely to have a change of circumstance. This proactive action helps to ensure that changes are identified promptly so that the claim can be corrected to mitigate the risk of an overpayment occurring. These visits are also used to remind claimants of their ongoing obligations to notify the Council of change of circumstances.

24. The Visiting Officers also conduct visits in relation to Council Tax and Non Domestic Rates to ensure that revenue is maximised. In the present climate this is a high risk area with many customers looking at ways to avoid paying and fraudulently claiming discounts and exemptions.

Fraud Awareness Training

25. The Benefit Fraud and Visiting Team provide annual fraud awareness training to Benefits Assessment staff, Council Tax staff, Customer Service Advisors and staff within Housing. The level of training ranges from general awareness training to in depth mock investigations and interviews. In 2010/11 training was also providing to PCSO's and Community Wardens. It is also planned for frontline staff dealing with homeless applications to receive specific fraud awareness training to assist in preventing fraudulent applications in this area entering the system.

Record Retention Policy

26. All investigation records are kept for 18 months after the closed date for annual audit purposes. All records are then destroyed in line with the Criminal Procedures Investigatory Act 1996 (CPIA).

RIPA

27. RIPA (Regulation of Investigatory Powers Act) is used on cases where there is substantial circumstantial evidence suggesting a fraud causing a great loss to the public purse is occurring. Surveillance is evidence that is given greater credibility in court as it is real time evidence and supports the prosecution in its case when proving beyond reasonable doubt that the fraud has been committed. RIPA is an essential part of an Investigators tool kit, without which, many of our more professional fraudster will remain undetected and unpunished. The cases where RIPA was necessary to uncover the facts are indicated above and can clearly be seen as the larger frauds. It would have great impact on the public purse if these were not investigated, stopped and prosecuted.

Tenancy Fraud

28. The Investigation Team have recently completed a six month pilot on Tenancy Fraud. (October 2010 to March 2011). This was funded by a central government grant that was ring fenced for Tenancy Fraud. The Housing Department received £10,000 to advertise and investigate this area. A separate report is being compiled and results collated to be completed and passed to Management Team by the end of June 2011. Initial findings have shown that out of 15 cases investigated 7 were found to be fraudulent. From the findings of the pilot and in line with the SIMALTO responses highlighting Social Housing, the Investigation Team have suggested that this as an area of priority for Ashford Borough Council.

What Next?

28. The government have announced that from April 2013 there will be one Single Fraud Investigation Service (SFIS) to investigate all benefit fraud. This will comprise of Department of Work & Pensions, HMRC and all Local Authorities. Full details of the service and impact are unknown.
29. More in depth cross departmental working, a corporate view on investigations and enforcement. All skills to be shared to ensure that the commitments of the 5 year plan are met and the best use of resources applied across the whole of the council.

Risk Assessment

30. The work of the Benefit Fraud and Visiting Team is vital in the mitigation of risk from fraud and error to the significant sums paid by the Council in Benefit.

Other Options Considered

31. Not applicable

Conclusions

32. Not applicable

Portfolio Holder's Views

30. Not applicable

Agenda Item No: 6
Report To: AUDIT COMMITTEE
Date: 27 JUNE 2011
Report Title: AUDIT COMMITTEE ANNUAL REPORT
Report Author: Ian Cumberworth



Summary:	This report sets out the Annual report of the activity of the Audit Committee for 2010/2011
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Key Decision: NO

Affected Wards: All

Recommendations: **1. Audit Committee agreed the content and the format of the Annual Committee report.**
2. Audit Committee agree to provide the Annual Report to Full Council, asking that the Report, setting out how the committee has discharged its responsibilities, is noted.

Policy Overview: Not Applicable

Financial Implications: Not Applicable

Risk Assessment No

Equalities Impact Assessment No

Other Material Implications: Not Applicable

Background Papers: Audit Committee Annual Report 2010/11

Contacts: ian.cumberworth@ashford.gov.uk – Tel: (01233) 330442

Report Title: Audit Committee Annual Report 2010/11

Purpose of the Report

1. To provide members of Full Council with an assurance on the work undertaken by the committee together with evidence of the effectiveness of the committee, this will also feed into the Annual Governance statement.

Background

2. The meeting of the Audit Committee on 1 February 2011 agreed six action points arising from the Review of The Audit Committee by Local Government Improvement & Development (LGID). One of the agreed actions was that the Committee would in future produce an annual report of its activities and effectiveness.
3. The Annual Report would be provided to Full Council in order to provide assurance to the Council that the role and function of the Committee has been met.
4. The role of the Audit Committee is to obtain assurance on the control environment of the organisation, the attached report sets out how the committee has sought to achieve this.
5. The internal control environment comprises the whole network of systems and controls established to manage the Council, to ensure that its objectives are met. It includes financial and other controls, and arrangements for ensuring the Council is achieving value for money from its activities
6. In accordance with best practice the committee has produced an Annual Report for Full Council.

Risk Assessment

7. Not Applicable

Equalities Impact Assessment

8. Not Applicable

Other Options Considered

9. The introduction of an Annual Report is in accordance with the actions agreed following the review by LGID. An Annual Report is considered to be good practice. No other option could be recommended.

Consultation

10. The Committee is being consulted on the content and format of the Annual Audit Committee report.

Implications Assessment

11. Not Applicable

Handling

12. Not Applicable

Conclusion

13. Based on the coverage of the work undertaken by the committee it is working effectively and discharging its responsibilities.

Portfolio Holder's Views

- 14.

Contact: Ian Cumberworth Tel: (01233) 330442

Email: ian.cumberworth@ashford.gov.uk

Audit Committee Annual Report 2010/11



ASHFORD
BOROUGH COUNCIL

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Ashford Borough Council

Audit Committee Annual Report – 2010/11

1. Introduction

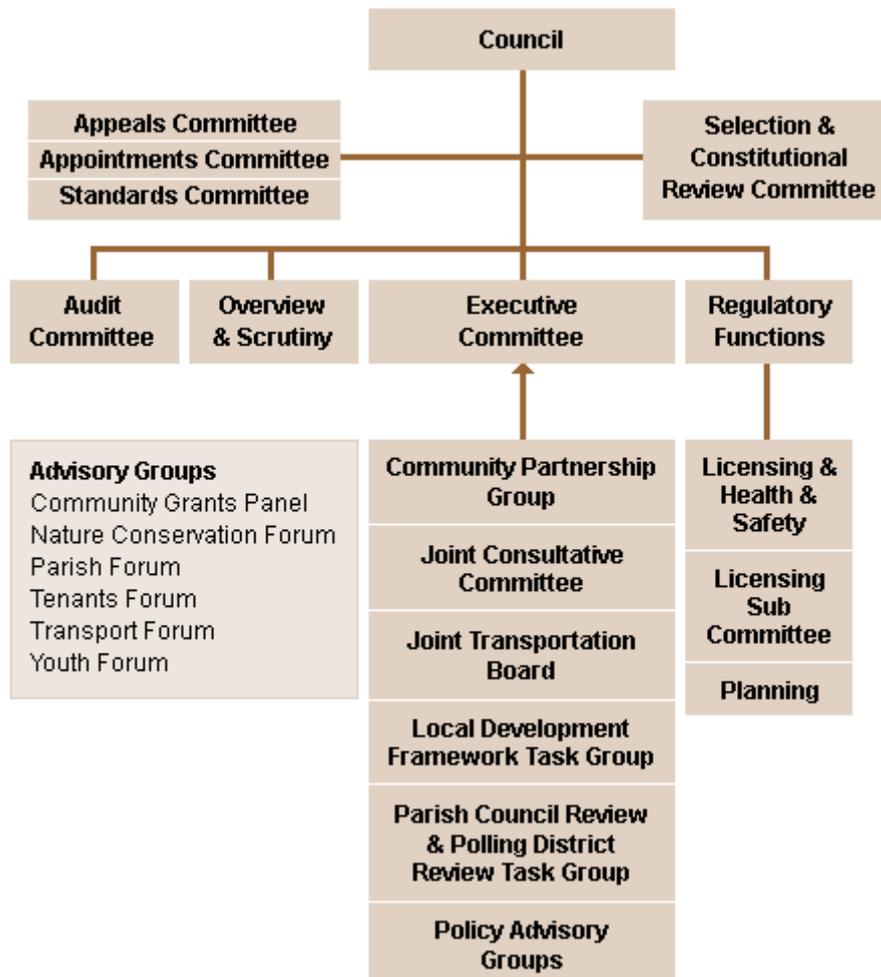
The Council established the Audit Committee as a full committee with effect from December 2006. Whilst there is currently no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee:

History of Corporate Governance	
1991	Cadbury Committee set up
1992	Cadbury report
1995	Greenbury Committee
1997	Nolan Committee reports
1998	Hampel Committee report
1999	Turnbull Committee
2001	Enron
2002	Sarbanes-Oxley Act
2003	Higgs & Smith reports
2003	Combined code

Audit Committees differ from the Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. The Audit Committee, however, exists to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and affects the control environment, and oversight of the financial reporting process.

The Committee is not a substitute for the executive function in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or recommendations on the way the management of these functions is conducted.

Ashford Borough Council – Committee structure



There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the committee will:

- raise greater awareness of the need for internal control and the implementation of audit recommendations;
- increase public confidence in the objectivity and fairness of financial and other reporting;
- reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);
- provide additional assurance to the Authority and its stakeholders through the results of its reviews.

2. Terms of reference and responsibilities

The Committee's detailed terms of reference are set out in the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.;

Audit Activity

1. The Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.
2. The summary of internal audit reports issued in the previous period.
3. Reports on the management and performance of the Audit Partnership Agreement.
4. Reports from the Head of Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. The External Auditor's Annual Management Letter and relevant reports.
6. Any detailed responses to the External Auditor's Annual Letter.
7. Specific reports as agreed with the External Auditor.
8. The scope and depth of external audit work and to ensure it gives value for money.
9. Liaison with the Audit Commission on the appointment of the Council's External Auditor.
10. The commissioning of work from internal and external audit.

Regulatory Framework/Risk Management

11. An overview of the Council's Constitution in respect of Contract Procedure Rules and Financial Regulations.
12. The effective development and operation of financial management, risk management and those elements of corporate governance within the remit of the Audit Committee.
13. Council policies on "raising concerns at work" i.e. whistle-blowing in the context of the Anti-Fraud and Anti-Corruption Strategy and the Council's complaints process.
14. To recommend the Authority's Annual Governance Statement for approval to the Executive. (Minute No. 531/5/10).
15. The Council's compliance with its own and other published financial standards and controls.
16. The External Auditor's report on issues arising from the Audit of the Accounts.
17. The ability to refer matters to the Overview and Scrutiny Committee for their consideration (Minute No. 62/6/09).

Note: The Overview and Scrutiny Committee has a similar provision to refer matters to the Audit Committee.

Delegations

18. The approval of the Annual Statement of Accounts in line with the statutory Requirements including those relating to the publishing deadlines. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the Audit that need to be brought to the attention of the Council.

3. Membership

The Audit Committee comprises of nine members. The Committee met on five occasions in 2010/11. Committee agenda papers and minutes are available on the Council's website www.ashford.gov.uk

2010/11 Audit Committee Members

**Cllr Wallace
Chairman**

**Cllr Ellison
Vice-Chairman**

**Cllr
Koowaree**

**Cllr
Smith**

**Cllr
Taylor**

**Cllr
Feacey**

**Cllr
Link**

**Cllr Mrs
Laughton**

4. Committee Attendance 2010/11

The Committee has been well supported throughout the year by both members and officers, and attendance records are set out in the table below.

Member/Officer	01/06/10	29/06/10	27/09/10	14/12/10	01/02/11
<u>Audit Committee Members</u>					
Cllr Wallace (Chair)	Y	Y	Y	N	N
Cllr Ellison (Vice Chair)	A	Y	Y	A	Y
Cllr Koowaree	Y	Y	Y	N	Y
Cllr Link	Y	Y	Y	Y	Y
Cllr Smith	Y	Y	A	Y	Y
Cllr Taylor	Y	Y	Y	Y	Y
Cllr Feacey	A	A		Y	Y
Cllr Laughton	A	Y	A	A	Y
<u>Other Members</u>					
Cllr Mrs Bell (Substitute)	Y(s)	-	-	-	-
Cllr Davison (Substitute)	Y(s)	-	Y(s)	Y(s)	Y
Cllr Ayres (Substitute)	-	Y(s)	-	-	-
Cllr Holland (Substitute)	-	-	Y(s)	-	-
Cllr Wood	Y	Y	Y	-	-
Cllr Naughton	Y	-	-	-	-
Cllr Hawes	-	-	-	Y	-
Cllr Hicks	-	-	-	Y	-
Cllr Cowley	-	-	-	-	Y
Cllr Packan					Y
<u>Officers</u>					
Deputy Chief Executive	Y	Y	Y	Y	Y
Finance Manager	Y	Y	Y	Y	Y
Head of Internal Audit Partnership	Y	A	Y	Y	Y
Audit Manager	Y	Y	Y	Y	Y
Head of Cultural & Project Services	Y	-	-	-	-
Senior Member Services Officer	Y	Y	Y	Y	Y
Principal Accountant (Technical)	-	Y	-	-	-
Performance & Improvement officer	Y	Y	Y		Y
Investigations & Visiting Manager	-	-	Y	-	-
Support Manager (Revenues & Benefits)	-	-	Y		
Corporate Change & Business Manager	-				Y
Eamon Lally (LGID)	-	-	-	Y	
<u>Audit Commission</u>					
Andy Mack	-	-	Y	Y	Y
Deborah Moorhouse	Y	Y	Y	Y	
Kevin Long	-	-	Y	-	-

Key: Y = Attendance, N = Non Attendance, A = Apologies Received, N/A = Not a Member

5. The Committee completed the following programme during 2010/11

Function/Issue	01/06/10	29/06/10	27/09/10	14/12/10	01/02/11
<u>INTERNAL AUDIT ACTIVITY</u>					
Operational Plan 2010/2011	-	-	X	-	-
Courtside	X	-	-	-	-
Section 106 Agreements	-	-	X	-	-
Annual Report 2009/10	X	-	-	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Opinion 2009/10	X	-	-	-	-
Annual Fee Proposal	X	-	-	-	-
Certification of Grant Claims	X	-	-	-	-
09/10 Accounts & Governance report	-	-	X	-	-
Compliance – International Accounting Standards	-	X	-	-	-
Audit Plan 2010/11	-	-	-	-	X
Annual Audit Letter 2009/10	-	-	-	X	-
Audit Commission	-	-	X	-	-
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Benefit Fraud Annual Report	-	-	X	-	-
Governance Statement –action plan	X	-	X	X	X
Performance Compendium	-	-	X	-	-
Ashford's Growth Agenda - Strategic Risk	-	-	-	X	-
Review of the Audit Committee –ID&eA	-	-	-	X	X
<u>ACCOUNTS</u>					
Closure of Accounts 2007/08 -2009/10	-	-	-	X	-
Financial Statements	-	-	-	-	X
Statement of accounts 2009/10	-	X	-	-	-
<u>FORWARD PLAN</u>					
Tracker	X	X	X	X	X

6. Assurance

The Audit Committee needs to gain assurance of the governance arrangements within the organisation as part of its annual work programme.

This has been achieved by:

- Receiving progress reports on internal and external audit issues.

Internal Control assurance
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's control environment• Be satisfied that the Authority's assurance statements including the Annual Governance Statement properly reflect the control environment and any actions required to improve it

This has been achieved by:

- Considering the review of internal control for 2009/10 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2009/10;
- Approving the Authority's Annual Governance Statement for 2009/10 and the action plan to address significant improvements. These were incorporated into the Corporate Improvement Plan and actions have been monitored by the Committee throughout the year;
- Received and considered the Annual Benefits Fraud report.

Audit Activity
<ul style="list-style-type: none">• Approve (but not direct) Internal Audit's strategy; plan and monitor performance• Review summary Internal Audit reports where they've received a 'limited' or 'minimal' assurance and seek assurances that action has been taken where necessary• Receive the annual report of the Head of Internal Audit• Consider the reports of external audit and inspection agencies• Ensure there are effective relationships between internal and external audit, and inspection agencies

Internal Audit

The Committee has:

- Considered and agreed the Internal Audit Plan for 2010/11;
- Received and considered the Head of Internal Audit Partnership Manager's Annual Report for 2009/2010, including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement;
- Received reports on the Internal Audit team's progress against the Plan;

- Received reports setting out the position regarding the agreement of audit reports and the assurance opinions provided for each review area;
- Considered specific Internal Audit reports with regard to Courtside;

External Audit

The Committee has:

- Received and agreed the Annual Audit & Inspection Letter for 2009/10,
- Considered and agreed the Audit & Inspection Plan for 2009/10;
- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations via the corporate improvement reports.

Accounts
<ul style="list-style-type: none">• Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit

The Committee has sought assurance by:

- Considering changes both to the format of the Accounts and the accounting policies used to prepare the accounts;
- Approving the Statement of Accounts for 2009/10 and later amendments;
- Receiving and considering the Annual Governance Report 2009/10.

7. Review of the Audit Committee's Effectiveness

It is regarded as best practice to periodically review the Audit Committee's effectiveness. Earlier in the year the Council commissioned a peer review from Local Government Improvement & Development (LGID) to be undertaken on the four partners Audit Committees covering the following elements:

- Terms of Reference
- Internal Audit Process
- External Audit Process
- Membership
- Meetings
- Training
- Administration

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

8. Summary update

In response to this report the committee has already taken steps to address some of the issues raised as part of this review. A meeting was convened where it was agreed the committee will:

- Further explore the option of a co opted Independent member sitting on the Audit Committee – a change has been made to the Constitution to allow an appointment to be made should members decide that they want to proceed with this option.
- Produce the Audit Committees first annual report for 2010/2011.
- Develop a training programme to ensure that Members are appropriately equipped to discharge their responsibilities
- Receive a report from the Head of Audit Partnership on the development of risk management within Ashford Borough Council.

Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. Next year the Committee will explore the option of co-opting an independent member onto the committee to further strengthen the independence of the committee. In addition it will need to ensure that the annual accounts are properly prepared in accordance with the requirement to adopt International Accounting Standards.

The Committee will also take a leading role in determining the way in which external audit will be delivered to the Council, in the context of the pending abolition of the Audit Commission.

9. 2011/12 Work Programme

The Committee faces a challenging year ahead. The Committee's detailed work programme for the forthcoming year is set out below.

Function/Issue	07/06/11	27/06/11	06/09/11	06/12/11	07/2/12
Training Session for Audit Committee Members	X				
<u>INTERNAL AUDIT ACTIVITY</u>					
Operational Plan 2011/12			X-	-	-
Annual Report		X	-	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Plan 2010/11		-	-	-	X-
Fee Proposal		-	-	-	X-
Grant Claims		-	X	-	-
2010/11 Accounts & Governance statement		-	X	-	-
Audit Plan 2011/12		-	-	-	X
Audit Letter		-	-	X	-
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Benefit Fraud – Annual Report		X	-	-	-
Governance statement		X	-	-	-
Governance Statement - Action Plan		-	X	X	X
Performance Compendium		-	X	X	-
CLG Consultation – Future of Local Public Audit Risk Management		X	X		
<u>ACCOUNTS</u>					
Statement of Accounts 2010/11		X	-	-	-
<u>FORWARD</u>					
Tracker		X	X	X	X

Agenda Item No:

Report To: AUDIT COMMITTEE

Date: 27 June 2011

Report Title: 2010/2011 Annual Governance Statement

Report Author: Paul Naylor, Deputy Chief Executive



Summary:

Each year the council must produce an Annual Governance Statement that summarises the approach to governance, demonstrates how its approach fulfils the principles for good corporate governance in the public sector, and draws a conclusion about the effectiveness of its governance arrangements. The attached statement is submitted for the Audit Committee to approve on behalf of the council. The draft has been submitted to the chairs of relevant council committees and groups, and the Leader. Any further comments on the draft will be reported to the meeting.

The report highlights just one area of significance for ongoing review; this concerns the emerging new approaches to local partnership working and the need to ensure that good principles of corporate governance are adopted in the design of these arrangements.

The Portfolio Holder (Councillor Robert Taylor) endorses the summary of our governance arrangements and supports the conclusions.

Key Decision: NO

Affected Wards: None in particular

Recommendations: The Audit Committee is asked to consider and approve the 2010/2011 Annual Governance Statement.

Policy Overview: Good standards of corporate governance are essential in all organisations. The council's arrangements are longstanding, well-developed and continue to be effective, but adaptive to change in local circumstances. An example of this was the new direction set by the work over the past year in relation to the 5 year Business Plan, and emerging arrangements for a new localist approach.

Financial Implications:	None
Equalities Impact Assessment	Not applicable for this report
Other Material Implications:	None
Background Papers:	The minutes of various meetings of the 'governance' committees over the course of 2010/2011.
Contacts:	Paul.naylor@ashford.gov.uk – Tel: (01233) 330436

Report Title: 2010/2011 Annual Governance Statement

Scope of Responsibility

1. Ashford Borough Council is responsible for ensuring that –
 - Its business and decision-making follows the law and proper standards.
 - Public money is safeguarded and properly accounted for and used economically, efficiently and effectively.
2. The council has a legal duty under the Local Government Act 1999 to secure continuous improvement in the way in which its roles are exercised, having regard to economy, efficiency and effectiveness.
3. In fulfilling these responsibilities the council must put in place proper arrangements to govern its affairs and promote the effective exercise of its roles, including arrangements to manage risk.
4. The council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA¹ and SOLACE² guidance '*Delivering Good Governance in Local Government*'. Copies of the code and the guidance are available on our web site or can be obtained by contacting Paul Naylor, Deputy Chief Executive (see contact details at the end of this document).
5. This annual governance statement summarises the council's governance arrangements and explains how it has complied with the local code. It also meets the requirements of Regulation 4 (2) of the Accounts and Audit Regulations 2003 (as amended) about publishing a statement on internal control.

The Purpose of the Governance Framework

6. Our governance framework is made up of:
 - the cultural values, systems and processes by which the council's work is directed and controlled
 - the activities through which the council engages with, leads and accounts to its community.

¹ CIPFA – the Chartered Institute of Public Finance and Accountancy

² SOLACE – the Society of Local Authority Chief Executives

7. Part of this framework allows councillors to check progress with achieving strategic objectives (as stated in our Summary Business Plan³) and to consider whether it has delivered suitable and cost-effective services.
8. Internal controls form a significant part of the framework and help to manage accountabilities and risk to a reasonable level. These controls cannot remove risk entirely, but are aimed at providing high-levels of safeguard and assurance. Our approach to risk management provides a means to identify and prioritise risk and the means to assess the likelihood of occurrence and potential impacts should they occur.
9. The governance framework is a permanent feature of the council's work and therefore was in place throughout the year ended 31st March 2011. Some changes to our constitution were made following forming the new council in May 2011. Revisions will, therefore, be in place at the time members approve the 2010/2011 financial statements in September 2011.

The Governance Framework

10. CIPFA and SOLACE together in 2007 produced their framework document '*delivering good governance in local government*'. Building on the Cadbury⁴ and Nolan⁵ principles the CIPFA/SOLACE framework identifies six core principles for good corporate governance.
11. This statement takes each of the principles in turn and describes the council's arrangements and developments over the past year that are of particular relevance to assessing the adequacy of our governance arrangements.

***Principle A –
Focusing on the purpose of the Council and on outcomes for the
community***

- A1 In recent years annual governance statements have highlighted a need to reconsider the council's objectives and direction because of prevailing circumstances. Beginning in early 2010 a total review of the council's purpose, direction and priorities began. Significantly this review expected challenging longer term financial prospects for local authorities following the recession and a change in government. The Coalition Government's Budget Reduction Plan has since set the scene for large cuts in public

³ Summary 5 Year Business Plan, Executive Committee and Full Council approved, February 2011

⁴ Cadbury Report, 'Report of the committee on the financial aspects of corporate governance' 1992

⁵ Nolan Report, 'Standards in Public Life: First Report of the Committee on Standards in Public Life (1995)

spending including grants to local authorities. Our new Business Plan recognises this and sets a clear vision for what the council is aiming to achieve. The following extract summarises the council's purpose:

Extract from Summary Business Plan (Council approved February 2011)

“What Are We Aiming For?”

“We are best placed within Kent and the South-East in many ways. We intend to use this advantage to become the council that local people expect and deserve; a council which is responsible and responsive; willing to change to deliver services which local people have prioritised. We want to be a council recognised for providing decent, cost-effective services. We want to be proud of our enterprise, value and customer service. We know that to deliver these commitments we need a clear sense of purpose and direction that will keep us on track to deliver this business plan over the next five years and beyond. We will work hard with our staff teams and council members over the remaining months of this financial year to carry out the necessary changes to our business, and to explain our expectations and ambitions now and for the future.”

- A2 Following extensive public consultation about priority themes and specific objectives, members approved the summary business plan alongside the annual budget for 2011/2012. Our business plan and budgets are fully aligned, the latter reflecting budget cuts resulting from public consultation and members' evaluation and decisions. Priority themes are stated and over the course of 2011 decisions will be taken about specific objectives and projects related to these. The priorities are shown below.

Recycling and the Environment

Activities for young people

Housing and growth

Best services resources allow

- A3 Running throughout all themes is a new and strong commitment to **Localism**.
- A4 The past year was a year of transition; therefore a year where new priorities were created expecting tough times ahead. The emphasis on localism has also dictated reconsideration of our local partnership work, and of our approach to housing and jobs growth and related community infrastructure provision.

- A5 As a result, the decision was taken to wind up the former Ashford (local strategic) Partnership (previously responsible for the Community Strategy). In the coming months members will consider creating a new partnership, the Ashford Locality Board. This new board will focus on supporting and delivering our and partners' collective priorities, and will support the wider aims of the new Kent Forum with its county-wide themed ambitions.
- A6 As centrally imposed housing growth targets for the longer term no longer apply, the transition involves a substantial review of housing and jobs growth for the borough. Therefore, the council has decided to start an early review of the 2008 Core Strategy (the local development framework). A strong commitment is made to wide-scale community consultation about future growth. Related to this transition and the need to take stock of the growth plans, the council and its 'Ashford Future' partners decided to wind down the Ashford Future Company Ltd. Over the past three years the company was responsible for co-ordinating and monitoring the delivery of the growth area programme.
- A7 In summary, therefore, 2010/2011 was a year that has seen a new and clear direction develop, including full integration of business, service and financial planning. It was also the start of a complete refresh of our growth needs and partnership working objectives and structures. Working alongside the Business Plan will be redesigned performance management reporting arrangements that will help members, the management team, partners and the public to have a clear understanding of progress.
- A8 In taking the council's localism aims forward its commitment to consultation and working with local communities will build on the council's engagement work. A review of our general communications arrangements was conducted in 2010 resulting in changes starting to be made in 2011. Further development of our approaches to consultation and communication will continue and will build on the successful arrangements already in place (for example our youth, parishes, tenants, and voluntary sector and neighbourhoods forums).

Principle B – Members and Officers work together to achieve a common purpose with clearly defined roles

- B1 The council's constitution states the roles and responsibilities of members and senior officers. It covers protocols for members and officers' conduct and contains many procedural rules, including procedures for conducting meetings, public speaking and representation, and financial and contract rules.

- B2 It includes the Terms of Reference for the Cabinet (formerly the Executive until May 2011) and Portfolio Holders, and for the Council as a whole and its various committees.
- B3 Over the coming months some further change to the constitution is expected. Proposals for amendments are required to be considered by the Selection and Constitution Review Committee.
- B4 Policy issues are usually considered for recommendation by the Cabinet to Full Council in public meetings based on reports available to members of the public. The cabinet decides collectively as a committee. Constitutionally therefore, portfolio holders act to support their responsibilities generally without individual decision-making ability outside the Cabinet (see B7 also). A Forward Plan containing details of key decisions to be made by the Cabinet is published monthly. The Officers of the Authority work with elected Members to deliver policies as developed and approved within the Constitutional Framework of the decision making process.
- B5 Further details on the roles and responsibilities of those Committees engaged with governance are contained in the 'Review of Effectiveness' section of the Annual Governance Statement.
- B6 Officer delegations and accountabilities are laid down in the constitution.
- B7 Officers are appointed with clear job descriptions and areas of responsibility, adopting statutory and professional standards where necessary. The constitution provides officers with delegations to make certain decisions to aid efficient and effective operation of the council's business. In February 2011 delegations were extended to provide Heads of Service, or Portfolio Holders in consultation with Heads of Service, with the ability to use financial reserves. This delegation was designed to more efficiently address smaller matters of urgency or of urgent community concern without needing the Management Team or Cabinet approval.

Principle C – promoting values for the authority and showing the values of good governance through upholding high standards of conduct and behaviour

- C1 Under the former 'use of resources' external audit assessment (withdrawn by Government in 2010) the council was recognised by the Audit Commission as having good governance arrangements. Later reporting by our external auditors continues to underline our governance arrangements as an area of strength.

- C2 Our constitution, therefore, sets down a well-regarded formal governance framework for directing members and officers conduct on the council's business. These protocols also address the need to declare and disclose relevant interests that members and officers may have which may or may be perceived to impact on council decision making.
- C3 The council's Standards Committee, chaired by an independent member of the public, oversees conduct issues.
- C4 The council's Audit Committee is required to assess and provide assurance about the adequacy of governance arrangements, in particular the risk management framework and the associated internal control environment. The committee's role extends to providing scrutiny of the Authority's financial statements and its non-financial performance. A particular focus for the committee is the council's exposure to risks and our arrangements for ensuring the control environment is not weakened.
- C5 The council has adopted a confidential Whistle-blowing Policy which is incorporated within the conditions of service for officers and is reviewed yearly. This is part of the council's commitment to uphold good standards and promote a culture of honesty and openness. There were no incidents for reporting during 2010/2011.
- C6 Complementing our commitment to openness and high standards of public service is our complaints procedure. Our arrangements allow anyone to make a complaint about the council and the services it provides. New complaints procedures were adopted from 2009. Reports to the Overview and Scrutiny Committee from the Customer Services Manager will summarise complaints issues and matters of learning arising.

Principle D – taking informed and transparent decisions which are subject to effective scrutiny and risk management

- D1 Cabinet meetings and other decision-making committees are held in public in an open style with members of the public able to pose questions or present petitions. Final decisions are needed from the full council where committees can only make a recommendation; this is usually where an issue is outside approved policy, is new policy, or outside the limits of the approved budget.
- D2 All decisions taken by members across the full democratic process are minuted and published. There is a presumption that information and decisions are taken in public, but occasionally (under access to information regulations) some information is regarded as 'exempt' and not published. However, the council aims as far as is possible to keep this type of information and decision to the minimum.

- D3 The Council runs an Overview and Scrutiny Committee. Its role is to examine and review existing policy and operational methods, as well as providing the ability for members to 'call in' decisions of the Cabinet for review before any actions are carried out. The Committee produces an annual report to review its work and aid judgements about its effectiveness.
- D4 A public participation scheme is maintained under the statutory requirements, details of which are held within the constitution. This scheme was reviewed during 2010/2011 because of statutory changes.
- D5 During 2010/2011 a specific 'transparency' policy was approved. This responded to the Government's needs for greater publication of information as well as the council's own wish to extend the information publicly available. Our website now, therefore, contains a specific 'Transparency' site. The council will keep under review the type of information to be published in this way.
- D6 Freedom of Information Act questions are all dealt with under established protocols.
- D7 Risk awareness and management is a part of the council's work, both for its members and officers. Our approach involves the following:
- preparation and maintenance of service and strategic risk registers
 - periodic reviews during a year with annual risk assessments
 - guidance and training on risk management available to members and staff
 - involvement by members in the risk management process, principally through the Audit, and Overview and Scrutiny Committees.
 - ensuring that risk implications feature in all committee reports and decision-making
- D8 However, and as the Head of Internal Audit advises in his Internal Audit Annual Report 2010/2011, there is a need to refresh the approach and ensure that work on identifying and managing risk at strategic (business plan) level follows through to services. Accordingly, this is an area of attention during 2011/2012, which will be led by the internal audit team.
- D9 During 2010/2011 with the work to prepare a new Business Plan, much of the routine around new service and risk assessment related to key corporate priorities was postponed until completion of the Plan and the first tranche of project objectives. This work should be completed in the summer of 2011 and our aim is to link this to a new risk and

performance management reporting arrangement. This will therefore come forward to the Cabinet, Audit, and Overview and Scrutiny Committees in the autumn.

- D10 Specifically on financial management and risk the Council has kept under review its financial rules as set out in the Constitution and within Financial Regulations. At officer level this is overseen by the 'Chief Finance Officer' under Section 151 of the Local Government Act 1972 (the Deputy Chief Executive). An associated responsibility is to assess longer term financial risk. Here the council receives advice following reviews of its medium term financial forecasts. These are updated periodically each year and support production and review of the Business Plan and resulting annual budgets. The CFO is under a statutory duty to advise on financial risk associated with the budget. Members receive this advice, with the outcome of reviews by the Overview and Scrutiny Committee as part of each year's budget decision-making.
- D11 The Overview and Scrutiny Committee, through its Budget Task Group will follow up risk assessments during each year, using the regular budget monitoring and performance management reports to the Cabinet as primary sources of information.
- D12 All committee reports include reference to the potential impact on the Council's priorities and aims, and address financial, risk, equalities and other implications. Health and safety issues and risks are directed by policies and procedures approved and updated by the council.

Principle E – developing the ability and capacity of members and officers to be effective

- E1 The council is committed to identifying and fulfilling the learning and development needs of members and officers. In respect of its staff the council was successful in 2011 in keeping its full Investors in People accreditation.
- E2 Members' training needs are considered through a Member Training Panel, for which a budget is available.
- E3 Inductions are provided for new members and routinely for new staff.
- E4 Officers' training needs are determined through a combination of staff performance development discussions and assessments by the Management Team of needs the Head of Personnel and Development recommends to address more general needs.

- E5 A central training budget for staff needs is available and a programme then set up. During 2010/2011 new automated appraisal methods were developed linked to assessments of behavioural and technical competencies, as part of the council's wider performance and talent management framework.

Principle F – engaging with local people and other stakeholders to ensure robust public accountability

- F1 2010/2011 was a year of transition. It saw extensive engagement with residents, community groups and partners on a scale not carried out in recent years. All of this work led to creating our summary level business plan and its associated priority themes. Work will continue with local people and residents to further develop the detailed content of the Business Plan.
- F2 A new local partnership will be set up under the banner of the Ashford Locality Board. Therefore the previous Community Strategy will be replaced by new objectives, but which can be expected to complement the aims of the council's Business Plan, other partners' priorities as well as the county-wide ambitions of the Kent Forum.
- F3 In January 2011, following a policy review a new set of consultation and communications was agreed by the former Executive Committee. This included a commitment to:
- set up a citizens panel
 - creating a central engagement website portal
 - develop guidelines and protocols for 'good consultation' practices
 - develop a deeper understanding of how to engage 'hard to reach' groups
 - replace Ashford Voice with an on-line e-magazine
 - promote council information through Parish Councils, Parish Magazines and Community Forums
 - create a succinct annual report to review key council achievements and activities over the preceding year linked to the Business Plan
- F4 Earlier in July 2010, the council agreed, following review by members, to end the practice of holding an annual State of the Borough Debate in favour of a broader set of community engagement methods.

Is the framework effective?

12. Ashford Borough Council has responsibility for conducting, at least yearly, a review of the effectiveness of its governance framework including the system of internal control. This review is informed by the work of the executive managers within the authority who have responsibility for developing and upholding the governance environment. It is further informed by the Head of Internal Audit's annual report, of reports from our external auditors and, where applicable from other review agencies. Effectiveness is also informed by the work and findings of the 'governance' committees (Standards, Audit, and Overview and Scrutiny Committees).

External audit

13. As previously mentioned our external auditors view the council's governance arrangements as an area of strength with no adverse comments arising during 2010/2011. Following a government decision the delivery of external audit will change in two years' time. Our external auditors have kept the council's Audit Committee informed of the progress. The council has also responded to the government's consultation on this topic.

Internal audit

14. Internal audit is responsible for checking the quality and effectiveness of the system of governance and internal control, through a risk-based workplan model. The reporting arrangements for Internal Audit require a report of each audit to the relevant Head of Service with a copy to the Chief Executive and Deputy Chief Executive. The report includes recommendations for improvements to internal controls and these are detailed within an Action Plan for agreement or rejection by Heads of Service. The Internal Audit Annual Report contains a statement/ judgement on the overall levels of internal control (a view based on the relative significance of the systems reviewed during the year). This year's report once again draws the conclusion that internal controls, overall, generally provide a substantial level of assurance.

It is the opinion of the Head of Internal Audit that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes that are in place to achieve the objectives of the Council. The evidence to support the opinion is contained within this report.

Internal Audit Annual Report 2010/2011 – Audit Committee 27 June 2011

15. Our internal audit work was again strengthened during 2010/2011 through setting up the four-council MidKent Audit Partnership. This arrangement provided further access to audit skills and the ability to strengthen audit generally, as well as a further opportunity to share in combined learning. The four council's audit committees took part in a review of their effectiveness carried out by the Improvement and Development Agency (now part of the Local Government Association group). The findings of that review were encouraging and were considered by the Audit Committee. The new Audit Committee will consider the various suggestions to further improve the effectiveness of the committee's role.

Overview and Scrutiny Committee

16. This Committee provides capability for a scrutiny role over decisions made by the Executive as well as providing public reviews of issues or council services that affect local people. The Committee produces and publishes an Annual Report, which summarises the work over the previous year. This report is also considered by the Cabinet. The 2010/2011 report is to be considered by the Committee in June. Particular highlights were the work on reviewing the council's 2011/2012 budget, and the mayoralty review, with the recommendations on both reviews accepted by the former Executive Committee.

Standards Committee

17. This Committee has Terms of Reference which comply with the guidance set out by the Standards Board for England, including the statutory roles about the local Code of Conduct for members. The full committee met on one occasion during 2010/2011 and is next due to meet at the end of June, when the committee will consider and adopt an Annual Report, prepared by the council's Monitoring Officer. The committee's Assessment Panel met on two occasions to consider exempt local conduct matters reported by the Monitoring Officer.
18. Usually, the annual report summarises the activity of the Committee and that of the Monitoring Officer, given his responsibilities for dealing with local conduct complaints, and his team's responsibility for handling Ombudsman's complaints about the council. The annual report will show an increase in complaints to the Ombudsman over the previous year, though there were no findings of maladministration. The report will summarise other conduct issues considered by the Monitoring Officer and the committee and its 'sub-committees'.

Audit Committee

19. This committee is responsible for overseeing and reviewing governance issues related to internal controls, and financial and risk management

arrangements. The committee considers and approves the annual accounts on behalf of the council, and adopts the Annual Governance Statement. The committee is the principal forum for consideration of our external auditor's reports. During 2010/2011 the committee met on six occasions; its work included:

- consideration of the Annual Internal Audit report and reviews of other internal audit work (including the Audit Commission's triennial review of internal audit in 2009) concluding that a substantial level of internal control was present within the council during 2009/2010
- rigorous consideration and approval of the 2009/10 Statement of Accounts
- approval of the 2009/2010 benefit fraud annual report
- reviews of corporate performance, and risk management (with a particular emphasis on the local economy)
- consideration of a peer review report by the Local Government Improvement & Development Agency on the effectiveness of the audit committee, and agreement of actions for development of the committee
- a strategic risk assessment about the Ashford's Future Company arrangements
- consideration of a preliminary response to the CLG consultation about the future of external audit and audit committees

20. Before most of its meetings committee members and other members continued to receive informal briefings on topical issues.

Selection & Constitutional Review Committee

21. This committee is responsible for reviewing and considering amendments to the constitution, and considers the representation for committees and outside bodies. The committee met on ten occasions during 2010/2011 and among its decisions were the following:

- new terms of reference were agreed to enable forming a Grants Gateway Panel
- the adoption of a mechanism to allow for members' 'Participative Groups' to be formed

- approved the constitution be amended to reflect the new-style Leader and Cabinet model under the Local Government and Public Involvement in Health Act 2007
- approved an amended Petition Scheme
- approved amendments to the portfolios for the “Leader” and “Community and Communications” (for 2010/2011)
- approved the Audit Committee may if it wishes appoint one or more co-opted non-voting independent (non-elected) members
- approved the extension to 1 May 2012 of the terms of appointment of independent (non-elected) members of the Standards Committee and that consideration be given to staggering the expiration of appointments

Community Partnership Group

22. This group reviews the progress on partnership arrangements. Specifically the Group inputs to reviews of the effectiveness of the Local Strategic Partnership, the Crime and Disorder Reduction Partnership, the Community Safety Strategy, the Council’s role in the Ashford Future partnership, and pan-Kent public sector partnership arrangements. The Group met on three occasions during the year. It considered progress with the Ashford Future partnership’s works programme, and a draft of the Local Investment Plan (a multipartnership economic development vision statement) prepared under requirements of the previous government. As the Coalition Government’s policy and financial changes began to take effect our partnership arrangements have taken a new focus. As a result the Ashford Future Company was wound down as part of the process of the council and its partner organisations ‘taking stock’ of the position and agreeing the direction for the future.

Policy Advisory Group

23. This group provides the space for new policy discussion to take place with members. Outcomes from the group are incorporated into reports and recommendations to the Cabinet. During 2010/2011 the group met on ten occasions to consider policy proposals across topics including:
- Waste management (the early consideration of future options)
 - Community engagement (new arrangements)
 - Localism (a statement of intent, including the need for community governance reviews)

- The five-year business plan, including the medium term financial forecast
 - Carbon management plan and a climate change policy and position statement
 - The longer term future of open spaces management, including possible community management models
24. Some of the group’s recommendations were considered by the Executive during the year, others will be considered by the Cabinet over the coming weeks.

Management Team

25. The Management Team works to provide collective input to the strategic direction for the council and its internal governance arrangements, as well as its operational management. It works as a senior officer forum for participative decision-making on matters of process and internal management. The management team had full input to the work of committees and groups.

Conclusion

26. Governance arrangements continue to be strong and are under regular review. 2010/2011 saw some fundamental development, particularly the review of priorities for the council, the ‘taking stock’ of growth plans, and the emerging plans for a new approach to localism. It is considered the governance framework remains effective and responsive to change and adaptation as circumstances dictate.
27. Only two significant areas of governance are highlighted as warranting further attention. The first concerns the development of new approaches to partnership working and arrangements to put into practice the council’s approach to localism. These approaches will inevitably raise matters of accountability and governance. In the interests of good governance and consistency it is recommended the Audit Committee should perform an important role to provide assurance about future arrangement. The second concerns the need to refresh risk management.

Signed

Leader of the Council

Chief Executive

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Agenda Item No: 8

Report To: **AUDIT COMMITTEE**

Date: **27 June 2011**

Report Title: **Future of local public audit – response to CLG consultation**

Report Author: Paul Naylor, Deputy Chief Executive



Summary:

Following the Secretary of State for Communities and Local Government's decision to abolish the Audit Commission CLG launched a consultation on future proposals at the end of March. Consultation extends to the end of June. The former Audit Committee was briefed and considered a preliminary response which was then the subject of a briefing with new Audit Committee members earlier this month and with the Parish Forum in April. Following consultation with the Chairman and Vice Chairman of this committee the response attached at **Appendix A** was submitted to the CLG on 21 June. Any amendments from this committee will be submitted to CLG separately. The proposals will allow the council to appoint its own external auditor, which is not contentious, and contains many proposals of a technical and regulatory nature. However, it contains proposals for the structure of Audit Committees which were contentious with Members and implications for parish councils that could give rise to an added cost burden. **Appendix B** is a more recent letter from the CLG Permanent Secretary that explains the determination of government to outsource the Audit Commission by April 2012. There is still some speculation as to when all the new responsibilities for external audit will come into being.

Key Decision: No

Affected Wards: None specifically

Recommendations: **The Audit Committee is asked to consider and endorse the response made to the CLG about the future for local external audit, subject to any amendments from the committee being reported to CLG before the close of the consultation on 30 June.**

Policy Overview: Strong and transparent local governance including accountability for financial resources, value for money and probity are fundamental to the proper working of local government. The external audit function acts as a watchdog to provide assurance to Members and residents. The CLG's proposals are founded on design principles that underpin this requirement.

Financial Implications:	None at this stage
Other Material Implications:	Not applicable at this stage
Background Papers:	CLG consultation paper, 'The Future of Local Public Audit' – March 2011 Report to Audit Committee 21 April 2011
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Report Title: Future of local public audit – response to CLG consultation

Purpose of Report

1. To endorse the response, at **Appendix A**, submitted on 21 June 2011 to the Department for Communities and Local Government (CLG) regarding its consultation on the Future of Local Public Audit (external audit).
2. Members should note that the CLG proposals will, if followed through, fundamentally change the composition and role of the Audit Committee from some time either in or after 2013.

Decision Required

3. The Committee is asked to endorse the response made to the CLG about the future for local external audit, subject to any amendments from the committee being reported to CLG before the close of the consultation on 30 June.

Background

4. The Audit Commission (AC) is responsible for conducting the financial audit of local authority accounts and for reviewing a council's value for money arrangements. The AC is the commissioner of all external local authority audits, and undertakes 70% of audits itself. The balance is awarded to the private sector, but tendered and awarded by the AC.
5. The Secretary of State for Communities and Local Government decided in 2010 to abolish the Audit Commission (although it will continue to operate through 2011/12 and possibly up to 2013/14 or beyond) and since the end of March has been consulting on options for future arrangements. This Committee has received briefings from our external auditor about the process.
6. The consultation runs to 54 pages and raises 50 main questions for the consultees to consider. Many are of a technical and regulatory nature, but there are some issues that affect councils more fundamentally; these are highlighted later in this covering report to the response.
7. Please note that at a meeting of the former Audit Committee on 21 April, Members then received a report about the consultation and gave a preliminary view on responses. Since then, the Deputy Chief Executive has written to all parish councils about the proposed responses to those issues that are relevant to parish councils. This followed a briefing to the Parish Forum in April.
8. On 7 June, some members of the new Audit Committee were present at an induction session, when a further briefing about the consultation was provided. It was decided then that subject to further consultation with the Chairman and Vice-Chairman the council's response should be submitted to CLG before this Committee meeting, as the consultation period closes on 30 June. If any changes to the attached response are necessary following this meeting, these will be relayed to CLG before the deadline.

The main issues

9. To assist Members, the main issues are set out below, and are referenced to the council's response. The consultation paper itself is available through the following link –
www.communities.gov.uk/publications/localgovernment/localpublicauditconsult
10. The Secretary of State's main aims are to:
 - Disband the Audit Commission and transfer the work of the Audit Commission's in-house audit service to the private sector (which may include a mutual organisation formed by former Audit Commission staff) – this aim was reaffirmed more recently in a letter to all local authorities from the CLG Permanent Secretary (a copy of the letter is attached as **Appendix B**);
 - Enable local authorities to appoint their own independent external auditors;
 - Provide an alternative for the external audit of smaller public bodies (e.g. parish councils);
 - Make audit committees statutory and create effective independent assurance;
 - Provide new arrangements for the audit of local health bodies (not a significant issue for ABC), and
 - Ensure that all local public bodies are still subject to robust auditing.
11. The underlying approach to the change is to adopt external audit practices to meet the specific requirements of local government, but that follow similar principles to the external audit of the private sector and other parts of the public sector.
12. The consultation covers:
 - Scope and Principles for external audit
 - Regulation of local public audit
 - Commissioning local public audit services
 - Scope of audit and the work of the auditors
 - Arrangements for smaller bodies.
13. The main issues from each of the sections are outlined below.

Scope and Principles

14. CLG proposes that the National Audit Office should in future be responsible for a Code of Audit Practice that governs the approach taken by the auditors. CLG also propose that registration of audit firms and monitoring and enforcement of audit standards be undertaken by the professional accountancy bodies under the supervision of the Financial Reporting Council.
15. The design principles used by the CLG to develop the new approach are:
 - localism and decentralisation – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies

- transparency – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
- lower audit fees – achieving a reduction in the overall cost of audit
- high standards of auditing – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit

16. Our response agrees that the design principles are appropriate, but we make the point that some of the later proposals from CLG are not entirely consistent with some of the principles.

Regulation of local public audit

17. Regulation and supervision of external auditors is necessary and here the CLG main proposals include:

- the National Audit Office being responsible for an external audit Code of Practice and supporting guidance to be used by local public auditors;
- the Financial Reporting Council acts as the regulator for local public audit
- auditors must be members of recognised supervisory bodies (the main accountancy institutes) and eligible for appointment under the rules of that body;
- supervisory bodies will be responsible for monitoring the quality of audit work, investigating complaints and disciplining their members. They could also stop an unsatisfactory firm from being eligible for appointment.

18. In essence, there will be a list of audit firms recognised as being qualified to undertake public audit work.

19. The proposals in this section are supported.

Commissioning local public audit services

20. CLG proposes that external auditors should be appointed by the audited body (the full council in our case) who will receive the advice of an audit committee. It is proposed that residents should have an opportunity to input to the decision-making process.

21. Councils may choose to jointly appoint an auditor if that were their wish. In the event that a council fails to appoint an auditor then the Secretary of State may either have the power to direct the council to appoint an auditor, or may have the power to appoint one himself.

22. Auditors could be appointed for 5 years, with one renewal, but CLG suggest that after 10 years a new firm must be appointed. There are also safeguards in place for the dismissal or resignation of auditors. The first point was not accepted by the former Audit Committee, which suggested that it was more important for an 'audit manager' to be rotated than an audit firm. This point is built into our response.

23. This section of the consultation also sets out the CLG's proposals for the composition of audit committees for local government. This is likely to be the most contentious element for Members and our response makes clear that the council disagrees with the basic proposition.

24. It is proposed that audit committees should be made statutory (this point is supported), but it be made mandatory for committees to include a majority of non-elected members who can only be considered if:
- they have not been a member or an officer of the local authority/public body within five years before the date of the appointment
 - they are not a member or an officer of any other relevant authority
 - they are not a relative or a close friend of a member or an officer of the body/authority
 - they have applied for the appointment
 - their appointment is approved by a majority of the members of the council
 - the position has been properly advertised
25. CLG also proposes that:
- the chair and vice-chair of the authority would be non-elected representatives
 - elected members on the audit committee should be non-cabinet members with at least one (and ideally one third of all members) having recent and relevant financial experience
26. Finally, this section also considers the **role** of an audit committee. Two options are outlined. The first takes a narrow approach and considers the audit committee having one mandatory duty, which is to advise council on the appointment or removal of an auditor.
27. The second option would be a wider and more detailed mandatory role covering:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor
 - overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitoring management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving
 - reporting annually to the full council on its activities for the previous year
28. Our response based on previous discussions with Members disagrees with the mandation of non-elected representatives on the grounds that such prescription is unnecessary, not consistent with the principles of localism, counter to the role of democratically and accountable elected Members and presumes that Members are unable to act impartially, and a concern that audit committees may become dominated by personalities with professional or personal interests.

Scope of audit and the work of the auditors

29. This section offers four options for the potential scope of external audit work.

Option 1 (limited scope) - *The auditor would:*

- give an opinion on whether the financial statements (its annual accounts) give a true and fair view of the audited body's financial position and of its income and expenditure
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules.

This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money. However, this option is similar to the practice of external audit for the private sector and would drive the greatest reduction in audit fees.

Option 2 - *This option is the same as option 1, but in addition the auditor would:*

- provide a conclusion as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)

Option 3 - *This option is designed to provide stronger assurances on the way local public bodies spend money and is similar to the current scope. Under this option, the auditor would still give an opinion on the financial statements, but would provide conclusions on:*

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime
- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

Option 4 - *Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience. Auditors, in addition to Option 3 would provide an opinion on the annual report.*

30. Discussion with Members previously indicated a strong preference for Option 2 as a mandatory scope, leaving councils the discretion to widen this if that were their wish.

Arrangements for smaller bodies (e.g. parish councils)

31. The CLG's proposals in this section will affect all parish councils where different arrangements are proposed for local public bodies with income and expenditure of less than £6.5m per annum.
32. The arrangements group local public bodies according to scales of income or expenditure bands.
33. CLG proposes that county councils (either their s151 officer or full council) would appoint an 'independent examiner' (IE) to conduct a more limited audit for each town or parish council in their area. CLG say it would be possible for the IE to be an officer of the county council.
34. District Councils are not given any role in these arrangements. In the case of Kent, the county council could have to appoint circa 300 IEs to the various town and parish councils.
35. Following discussion at our Parish Forum in April and the Member briefing earlier this month there was support for our response suggesting the commissioning role be carried out by Districts, with the ability for Districts internal audit teams to perform a limited external audit for parish councils. Understandably, parish councils were concerned about the potential cost implications of IE if undertaken by private firms. We have copied our draft response to all parish councils in the borough and any comments received will be reported to the committee.

Portfolio Holder's Views (Councillor Robert Taylor)

36. Endorsing the response is a matter for the committee's consideration though I support it in the interests of good local governance. It is good that Members have had an earlier opportunity to consider the consultation and we are consulting our parish councils. The response is consistent with the earlier views of Members and parish council representatives.

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Ashford Borough Council

CLG Consultation – ‘Future of local public audit’

Responses to the detailed ‘50’ questions

Q No.	Issue	Suggested Response
1	Design principles	The principles are sound. However, it is this council’s view that the consultation paper falls short of meeting some of those principles. In particular it is felt the principle of ‘localism’ is compromised by the preferences displayed over the proposals for audit committees and the prescription that non-elected representatives should form most of an audit committee’s members. This is unnecessary and a step too far, a point this response expands on later. The aim that councils and other audit bodies should receive better value for money and audit services at less cost is fully supported. However, neither the council nor our local parish council representatives are confident the proposals will achieve this aim at local level.
2	Probation Trust audits	Yes, the council agrees.
3	Who should produce a Code of Practice?	Yes, the council believes the National Audit Office is the most suitable organisation to produce a Code of Practice.
4	Registration of auditors	Yes
5	Who should maintain register of statutory local public auditors?	The council believes the Financial Reporting Council should maintain and review the register of statutory local public auditors.
6	Balancing audit experience with entry to the audit market	There is an inevitability that local public audit will be dominated by the larger private audit firms. This council hopes the Audit Commission’s proposals for a staff mutual will be supported by Government as it potentially offers an important counterbalance, plus a means of keeping experience of the public sector developed over many years. Any new firms entering the market

		must demonstrate their ability through their track record in other audited sectors and through their structures, qualification and skills of their staff. Firms must also display a sound awareness of the principles of public audit. Local authority audit (even if restricted to audits of the financial statements) can be complex and involve accounting not found in the commercial sector. It is accepted this may count against new and smaller audit firms, but it is assurance and public accountability that matters most.
7	Any additional criteria for the appointment of audit firms?	Apart from relevant experience and knowledge of the financial frameworks governing local authorities, the council believes that auditors must have a good understanding of the local context of a local public body. This council's audit committee and its members have welcomed auditors' assurances and comments in the knowledge that auditors have full understanding of the local context. We do not believe this requirement would unfairly restrict the market. We believe audit firms must be expected to familiarise themselves with the local context of a prospective client when expressing an interest in contracting for its audit work.
8	Public interest entity – definition	The council's view is that all principal authorities (districts, counties, unitary councils and metropolitan authorities) should be classed as 'public interest entities', and auditors of those bodies should be regulated by the Financial Reporting Council on the same basis as for public interest entities in the private sector
9	PIE – any additional regulation?	
10	Role of regulator in relation to any local bodies treated as PIEs?	
		Additionally, the council suggests that arms length companies where councils have a controlling interest or significant influence should also potentially fall within the public interest entity classification, subject to meeting tests relating to their size and scale of operation. We feel the above will help ensure audit quality and professional standards, which will be vital in any new audit regime.
11	Joint procurement of auditors	Yes, the council believes the proposals provide enough flexibility in principle for collaboration and joint procurements by local public bodies.
12	Criteria for independent members	Members view the proposals for compulsory non-elected full members on audit committees as an unnecessary step. The council believes insufficient evidence has been gathered about the role and effectiveness of audit committees currently within local government. However, the council

		<p>supports the notion that non-elected members can bring a measure of independence and experience that elected members may not have. Currently some councils use their discretion to appoint non-elected representatives as either full or co-opted members of audit committees. Our members believe this flexibility should be retained, but given more emphasis in statutory guidance. Elected members are publicly accountable and are concerned that non-elected representatives as full audit committee members inevitably would lack this important characteristic. However, members see strong potential and justification for non-elected representatives to engage in audit committees as co-opted members bringing important experience and independent insight to the work of audit committees. Accordingly, members of this council would prefer the flexibility to appoint a number of co-opted (non-voting) non-elected representatives up to a maximum of one-third of the audit committee full membership (rounded up). It is considered a minimum statutory requirement for at least one non-voting co-opted member should apply. Co-opted non-elected members should be considered for their particular experience in relevant fields of audit work, whether this be financial audit, risk management, procurement etc. To ensure transparency and to increase opportunity for involvement the council would support a requirement for open appointments to co-opted representatives.</p>
13	Skills for independent members	<p>Yes, and building on our response to Question 12 the council believes it is necessary for non-elected representatives serving on audit committees to have relevant expertise (even following the council's preference for co-option). It is most likely this will include financial skills and experience, but could also include other skills and experience relevant to the full scope of an audit committee's work.</p>
14	Will independent member remuneration be needed?	<p>At the numbers implied by the Government's preferred alternative, members feel this could present a big challenge for councils to source enough interest with the skills and experience needed. Again building on the council's response to Questions 12 and 13, and our preference for co-option of non-elected representatives, members feel their preferred option would provide greater prospects for sourcing enough numbers of non-elected representatives. It may not be straightforward however, and financial allowances are likely to be needed. The council believes allowances should be a matter for consideration by councils' Independent Remuneration Panels</p>

15	Audit Committees	<p>As covered in the council's responses to Questions 1 and 12 the council believes the Government's preference for a majority of non-elected members of audit committees is inconsistent with that principle. This is considered a step too far. In members' view the justification lacks any appreciation for the merits and performance of local authorities' audit committees as currently constituted.</p> <p>This council welcomes making audit committees a compulsory requirement for councils, but strongly believes that democratically elected members should form the nucleus of audit committees.</p> <p>Repeating a point made in our response to Question 14 the council suggests co-option for one non-elected representative should be made the statutory minimum requirement with the flexibility to appoint more as councils see fit for their circumstances.</p> <p>As a result, therefore, the council is not able to support the options listed in Paragraph 3.9, though, we repeat, the council agrees with the principle of non-elected member representation on audit committees.</p> <p>The council does not believe that its preference for constituting audit committees will weaken the 'independence' of the relationship between the external auditor and the audited body. That is not our experience so far and we see no reason why this should be affected after decentralising external audit.</p> <p>Even following the council's preference, appointment of the auditor would be achieved through a recommendation of the audit committee (with some non-elected representation) to the Full Council. Both at full council meeting and in the process leading up to the recommendation it should be a requirement that opportunities are created for public involvement and questioning, as well as debate if needed.</p>
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16	Audit Committee roles	The council supports Option 1. We support the ability for councils to use their discretion to widen the role after considering how aspects of assurance work fit with other parts of a council's governance framework (for example the role of overview and scrutiny).
17	Are the roles appropriate?	Yes the roles are appropriate. As stated in our response to Question 16 the council supports Option 1, but that legislation should provide the discretion for councils to widen the role as they think fit.
18	Should Code specify how auditors are appointed?	Yes, and the council believes the NAO should maintain the Code
19	Public involvement in auditor appointment	Yes, the Council supports the proposal for public involvement.
20	Public involvement for other public bodies	Noted
21	Failure to appoint an auditor	Option 2 is supported by the council. The S151 Officer, through an amendment to the Accounts and Audit Regulations, should have the responsibility to ensure the council makes the appointment and that this be made by Full Council and reported accordingly.
22	Duty to inform when auditor appointed	Yes, the council agrees it will be necessary for local public bodies to inform a body of the appointment. If not the Secretary of State's role to step in and appoint an auditor would be impossible to perform. A variation on this would be to place the responsibility to inform Government of a failure to appoint with the Section 151 officer.
23	Who is informed?	Yes, the relevant Government department; CLG in the case of local authorities.
24	Rotation of audit firms	The council has a preference for the ability to maintain a relationship with its external auditor beyond ten years if it is satisfied that the relationship is sound. Therefore Councils should have this discretion, but it is this council's view that rotation of audit managers is a more relevant matter.
25	Are current ethical standards for rotation sufficient?	Yes, the council believes the current ethical standards provide enough safeguards.

26	Requirement to change audit firm after two terms (ten years)	See response to Question 24, where the council does not favour compulsory rotation of audit firms after two terms. Instead the council favours a discretion to do this linked to the compulsory rotation of audit managers within serving audit firms.
27	Resignation and removal of auditors	Yes, the council is satisfied the proposed process is suitable and provides acceptable safeguards for auditors and their clients.
28	Safeguarding against auditors unreasonably limiting their liability	In the absence of a central body providing indemnities to auditors it is right that statutory provisions should seek to prevent auditors from unreasonably limiting their liability to a client. However, we see that auditors' risks will be passed on in extra indirect costs and lead to increases in audit fees generally.
29	Scope of audit work	The council favours Option 2 as members regard with high importance the need for an external audit judgement on value for money. However, this council feels that external auditors should also have a role in advising audited bodies about the effectiveness of their internal audit functions. A narrow audit of financial statements may achieve financial savings, but members are concerned that wider assurance to residents and local taxpayers on matters about value for money and governance may suffer as a result.
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34	Public interest reporting	Yes, the council believes it is necessary to retain the ability for auditors to report in the public interest. The council does not feel an auditor's independence would be compromised as a result; subject to the safeguards referred to elsewhere in the consultation paper.
35	Provision of non-audit services	Yes, the council believes it would be proper for audit committees to consider any proposal to use the auditor for any out-of-audit scope work. Councils should be advised to follow their procurement arrangements and standing orders so as not to limit the ability for other firms to be
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		invited. The Council may choose to limit the volume and value of non-audit services to ensure that this is not seen to impact on the need for independent audit.
37	Public interest disclosure – ‘whistleblowing’	Yes, the council believes that both the audit firm and audit committee should be appointed as ‘prescribed persons’ under the Public Interest Disclosure Act.
38	Transparency – modernising the public’s right to object to the accounts	Yes, the council believes modernising a right first introduced 150 years ago is long overdue. We agree that transparency and the Fol Act provide many opportunities for residents to seek information and raise concerns. It is also reasonable for auditors to be within the scope of the Fol Act, subject to limiting the scope to the audit work for a local public body. However, the council does have some concerns about the implications for audit fees, and whether in practice modernising the ‘right to object’ results in more work for auditors rather than less.
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42	Audit arrangements for smaller public bodies – eg. Parish councils. Which option would the council support?	<p>Parish councils consider the ‘limited audit regime’ carried out by the Audit Commission works well and involves minimal cost. Please note that currently most parish councils in this borough typically incur an audit fee of about £140.</p> <p>The view of the council and of a majority of local parish councils is that independent examination has many merits, but there is a fear this would lead to higher costs. Parish councils, in particular, anticipate substantial percentage increases in audit fee costs, if fee-based independent examination were to become the norm.</p> <p>Ignoring the largest and the smallest parish councils within this borough, the typical average <u>precept</u> for a parish council is about £17,000, with audit fees typically representing about 1% or less of total costs. There is a worry this percentage may rise to 3-4%.</p> <p>It is accepted that full audit for most parish councils is not suitable or needed, but that parish councils should have the discretion to make this decision, however.</p>

		<p>To help reduce unavoidable fee increases the borough council proposes a proportionate system of independent examination that largely follows the current method of limited audit regime undertaken by the Audit Commission. In the same way that limited audit is carried out as a desk-top review by the Audit Commission, a similar approach could be carried out by districts' or county councils' internal audit teams. This arrangement should also permit joint involvement of audit teams.</p> <p>Using internal audit teams would be an alternative to sourcing independent examiners for each parish council audit. Although internal audit teams are small, we consider district and borough council audit teams have the skills, capacity and necessary understanding to cope well with a desk-top review of parish councils' financial statements. The format of material for presentation should be standardised, however.</p> <p>Fees chargeable by internal audit teams could be at marginal additional cost and would be expected to be significantly less than may otherwise be charged if independent examination leads to private sector audit firms being commissioned (even small practices) or fee scales developed for or sought by individuals appointed to carry out the work.</p>
43	<p>Should the county council (or unitary) commission independent examiners for small bodies?</p>	<p>Ashford Borough Council does not agree that county councils are best placed to perform this role as it could be burdensome role given the numbers of parish councils here in Kent (+300). Borough and District councils should be considered as commissioners given their likely greater contact with and awareness of local parish councils' work and circumstances. Inexplicably this option is not mentioned in the consultation paper.</p> <p>However, the council sees parish councils themselves having involvement with the commissioning process, for parish councils may wish to propose suitable people or firms for consideration. Indeed and in answer to the point raised in Question 45 the council believes it could be appropriate for parish councils who wish to perform the commissioning role to do so and use a district council's audit committee for this purpose.</p>

		<p>The council believes that district and borough councils' section 151 officers could perform the commissioning role acting on advice from their audit committees.</p> <p>Following from the council's response to Question 43 we believe it should be possible for the commissioning body to appoint its own internal audit team (we accept this is an option mentioned in the consultation paper, though this may be referring to county council internal audit). However, commissioning and potential appointment of an internal audit team should follow full consultation with parish councils and be subject to internal audit teams satisfying relevant criteria for appointment.</p>
44	What guidance is required to commissioning bodies for IE appointments	The council believes the NAO should produce and maintain guidance, though much of this is in place as reflected in the consultation paper. The annual return requirements from parish councils could mirror the arrangements currently in place from the Audit Commission.
45	Parish councils appointing an IE	This council believes that parishes that wish to appoint an IE should have the ability to do so, but be expected to use a district council's audit committee to preserve oversight. There are likely to be some smaller parish councils that may not have the capacity or experience to carry out this role and in these cases may look to a district council for advice and to make an appointment on their behalf. The council believes that only some parish councils would have the capacity and scale of work to create and justify an audit committee.
46	Are there other options to ensure independence?	Please refer to our response to Question 42. The council considers its suggestion of a hybrid (adopting the style of the current limited audit regime with aspects of independent examination, possibly then carried out by a district council's internal audit team) is a practical alternative and offers another choice to ensuring independence.
47	Is the four-level approach to IE too complex?	<p>No, it is not too complex. Again the council would suggest that borough and district councils are involved in commissioning rather than county councils in two-tier areas.</p> <p>However, the suggestion that a principal council's officer may act as an IE for say a parish council needs qualifying in our view. Given that many principal councils support local parish councils to</p>

		<p>varying degrees, a position that can only increase under localism, it would be essential for principal councils to display independence if involved in the audit of parish councils' financial statements.</p> <p>Again following from the response to Question 42 the council feels independence by a principal council would be best achieved through using the resources of internal audit teams to conduct an independent examination.</p> <p>For the higher levels of IE the council believes it is necessary for the IE to hold a relevant professional qualification and be experienced in financial or audit work. Internal audit teams would qualify against these criteria.</p>
48	Public interest reporting for smaller bodies	The council believes that matters of public interest about smaller public bodies should be raised with the audited body and a district council's audit committee. The district council's audit committee could decide whether to appoint an auditor to investigate the matter, and have the ability to decide any suitable conditions or sanctions for the smaller local public body.
49	Objections to the accounts of smaller public bodies	Subject to replacing district for county council, this council agrees the proposal is suitable.
50	Regulatory regime for smaller bodies	Subject to replacing district council for county council this council believes it would be appropriate for larger councils to act as the regulatory body for smaller public bodies.

From the Permanent Secretary

Local Authority Chief
Executives

2 June 2011

Dear Local Authority Chief Executives,

UPDATE ON WORK ON THE FUTURE OF LOCAL AUDIT

In August last year the Secretary of State announced plans to disband the Audit Commission and refocus local public audit. Since then, the feedback from local government has been generally supportive of the decision. We have a shared goal of making progress on a robust new local audit framework, and on shutting down the Commission quickly and efficiently, so that local government can appoint auditors as soon as possible. I want to update you on what we are doing to secure this.

Since the announcement, we have been carefully considering how to deliver the changes as cost effectively and quickly as possible. We are out to consultation on proposals for the new audit framework, and keen to hear your views. The consultation runs until 30 June, and the document is at: <http://www.communities.gov.uk/publications/localgovernment/localpublicauditconsult> We plan to provide a response to the consultation in the autumn, and to publish draft legislation, and then to bring forward primary legislation as soon as Parliamentary time allows.

We have also been looking at how to transfer the audit work from the Commission's in-house audit practice to the private sector. We have taken external advice on how best to achieve this. We need to ensure the public purse is protected, and that you get high quality and value for money audit services until you can start appointing your own auditors.

There are two basic options, either to outsource all the audit work (30% of which is already done by the private sector), or to create an independent company which could be sold. Our initial view, drawing on the work of our external advisers, is that outsourcing could be the better option – potentially quicker, more straightforward and better value for money. We have, therefore, asked the Audit Commission to begin substantive preparatory work for outsourcing the 2012/13 audits. This means we will be able to move quickly if Ministers take a final decision to go down this route. The attached press notice provides more details.

We would ensure that local government is fully engaged in the process of outsourcing and the appointment of auditors. We will ensure that whichever option is chosen provides high quality and value for money. We expect local government to share in the benefit of any savings that are achieved. We are clear that outsourcing would not delay the point at which you are able to appoint your own auditors, compared with the sale option. My department is ready to work closely with local government and the Commission to ensure a smooth transition.

Once Ministers have made a final decision on how best to transfer the in house practice to the private sector, they will inform Parliament in the usual way. I will keep you informed of developments and the programme will be kept under review to ensure the best possible outcome.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Bob Kerlake'. The signature is written in a cursive style with a large initial 'B'.

SIR BOB KERSLAKE

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Government***

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Audit Committee - Future Meetings

Date 6/09/2011			
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	Statement of Accounts 2010/11	PN/BL	
3	2010/11 Accounts and the External Auditor's Annual Governance Statement	AComm (cover by PN)	
4	Internal Audit Operational Plan 2011/12	BP	
5	Risk Management – Approach and Strategy for Taking Forward Risk Management at Ashford'	BP	
6	Annual Governance Statement – Progress on Remedying Exceptions	NC	
7	Corporate Performance Report	NC	
8	Report Tracker for Future Meetings	DS	

Date 6/12/2011			
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 Remedying Exceptions	NC	
3	Corporate Performance Report	NC	
4	Annual Audit Letter 2010/11	PN	
5	Report Tracker & Future Meetings	DS	

Date 07/02/2012			
Publish by 30/01/12		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 26th January		Council 16/02/12	
1	Minimal/Limited Audits	BP	
2	Audit Commission's Proposed Audit Plan for the 2011/2012 Audit	AComm	
3	Annual Governance Statement – Progress on Remedying Exceptions	NC	
4	Corporate Performance Report	NC	
5	Report Tracker for Future Meetings	DS	

Date 06/06/2012			
Publish by 25/05/12		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 24th May		Council 19/07/12	
1	Minimal/Limited Audits	BP	
2	Internal Audit Annual Report 2011/12 (including update on first year of the Partnership)	BP	
3	Annual Review of the Effectiveness of the Systems of Internal Audit	BP	
4	Approval of Annual Governance Statement	PN	
5	Report Tracker for Future Meetings	DS	

Date 19/06/2012		PH Cllr Wood	
Publish by 11/06/12		Pre Comm – if requested by Ch/VCh	
Reports to Management Team by 7th June		Council 19/07/12	
1	Minimal/Limited Audits	BP	
2	Benefit Fraud Annual Report 2011/12	Jo Fox	
3	Annual Report of the Audit Committee 2011/12	BP/IC	
4	Internal Audit Operational Plan 2012/13	BP	
5	Corporate Performance Report	NC	
6	Report Tracker for Future Meetings	DS	

17/6/2011