



Audit Committee

Notice of a meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane, Ashford, Kent TN23 1PL on Tuesday 6th March 2012 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

Page
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 6th December 2011

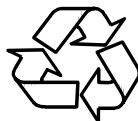
Part I – For Decision

4. Reports of External Auditor (Audit Commission):-
 - (a) Certification of Grant Claims – Annual Report
 - (b) Audit Commission's Proposed Audit Plan for the 2011/12 Audit
 - (c) Audit Commission – General Progress Report
5. Presentation of Financial Statements
6. Internal Audit Operational Plan 2012/13
7. Good Principles of Partnership Governance

Part II – Monitoring/Information Items

8. Annual Governance Statement – Progress on Remedying Exceptions
9. Report Tracker and Future Meetings

Queries concerning this agenda? Please contact Danny Sheppard:
Telephone: 01233 330349 Email: danny.sheppard@ashford.gov.uk
Agendas, Reports and Minutes are available on: www.ashford.gov.uk/committees



Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **6th December 2011**

Present:

Cllr. Clokie (Chairman);
Cllr. Link (Vice-Chairman);

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

Apology:

Cllr. Michael.

Also Present:

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

Andy Mack, Lynn Clayton – Audit Commission.

232 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 28th September 2011 be approved and confirmed as a correct record.

The Chairman advised of a change to the order of business of the Meeting.

233 Annual Audit Letter 2010/11

Mr Mack introduced the District Auditor's Annual Audit Letter covering the external audit for the 2010/2011 financial year. The letter was the public report on the findings of the past year's Audit. It covered two main areas: - the Council's Financial Statements; and the Council's arrangements to achieve value for money in its use of resources.

With regard to the Accounts the District Auditor had issued an unqualified opinion which was particularly pleasing given the pressures of the complex new International Financial Reporting Standards. The Council had made great strides in its financial reporting over the last couple of years. In terms of value for money, an unqualified conclusion had also been issued. No significant internal control weaknesses had been identified and consequently there were no recommendations in the letter for specific actions by the Council. The District Auditor had also commented favourably on the Council's approach to priority setting for business and financial planning, so it was a good positive report all round. On future challenges, following on from the

Chancellor's recent Autumn Budget Statement, the financial landscape would continue to be difficult for Local Authorities for the next few years so it would be important to keep a close eye on the challenges flowing from Central Government reforms and to note that the challenge will be an ongoing one.

The Chairman said that he viewed the proposed change to the current method of financing the Housing Revenue Account (HRA) an outstanding risk and asked Mr Mack for his views on this. Mr Mack said he agreed and this was twofold in terms of the operational issue and cash flow impact of enormous amounts of money changing hands, as well as the decisions for the Council around its debt portfolio. He knew discussions about this were already underway however and he had no immediate concerns about the Council's ability to deal with it. The Deputy Chief Executive also explained that a lot of work had already been undertaken by both Finance and Housing Officers on this and there would be a major report to Cabinet in the New Year explaining the Council's strategy. The Council was conscious of the risks in this area and risk management more generally within the HRA over the next few years.

A Member asked about reserves and the comments in the report recommending that the Council maintained reserves at a certain level. He understood that the Council was looking to implement various invest to save projects which may see reserves at lower levels in the future and wondered what Mr Mack's view on that would be. Mr Mack responded that it was obviously a matter for each Council to decide. Some Councils were happy to run with much lower reserves than others, but it was a risk, particularly at a time of great economic uncertainty as at present so he would urge caution about running them too low.

The Chairman wished to place on record the Committee's thanks to the Accounting Team for their hard work in preparing this year's Financial Statements.

Resolved:

That the Committee note the District Auditor's Annual Audit Letter covering the 2010/11 financial year.

234 Protecting the Public Purse 2011: Fighting Fraud Against Local Government

The report asked the Committee to note the recently published report from the Audit Commission, 'Protecting the Public Purse', and note that a future report would be provided to the Committee setting out the Council's arrangements for fighting fraud. That report would attempt to pick up on the points raised in this report as well as whether the Council had sufficient resources to deal with those points. The Head of Internal Audit Partnership said that in his view the Council did, but they may need to be re-aligned. In terms of the national picture, he considered that some of the reported figures were alarmingly high. Internal staff fraud and procurement fraud were increasing, which was not entirely surprising in a time of recession. Within the report Ashford Borough Council had been highlighted as an example of good practice in terms of its work to tackle housing tenancy fraud which was a pleasing public endorsement of the Council's Investigations & Visiting Team.

Mrs Clayton said that it was important to point out that in terms of internal and procurement fraud, this Council had suffered none and there had been a relatively modest total of £147,000 in Housing Benefit and Council Tax fraud.

A Member asked about the staffing levels and the reputational risk of fraud to the Council. He understood there were changes in the offing for the Fraud Team and these were uncertain times but he did want to be re-assured for the future. The Deputy Chief Executive said that the transition to Universal Credit would mean that the responsibility for benefit fraud would transfer to Job Centre Plus and the Department for Work and Pensions. However there was scope for the Officers to work more broadly considering the issue of Housing Tenancy Fraud and all whistleblowing cases would still need to be covered. Also, perhaps a dedicated Fraud Officer could join the Internal Audit Team in the future. Therefore there was a desire to retain some sort of core anti-fraud resource within the Council. The Committee supported doing everything possible to retain the Officers in the current team.

A Member said whilst welcoming some of the success stories, he still believed there were cases of fraud that were reported but were considered “too difficult” to pursue. Therefore he could not agree that there was zero tolerance or exactly the right approach to fraud as stated within the report. Both the Chairman and Cabinet Member said they would be extremely concerned if this was the case and urged the Member to report anything like this to the Head of Service and Cabinet Member.

The Chairman said he would welcome a follow up to this report at the next Meeting of the Committee. The Cabinet Member said the checklist at Appendix 1 should be used to assist any follow ups and keep the Committee on track.

Resolved:

That the publication by the Audit Commission, ‘Protecting the Public Purse’ be noted and a report be provided to a future meeting of the Committee setting out the Council’s arrangements for fighting fraud.

235 Risk Management

The report advised that the Committee had received a report at its last Meeting which set out an approach and strategy for risk management. The Committee had accepted the proposals and set up a Task Group to agree the areas of risk to be covered, the format of presentation and the timetable. The Task Group met on the 18th November 2011 and agreed there was a need to move quickly and create an up-to-date, comprehensive Strategic Risk Register. A report had therefore been placed on the agenda for the Cabinet on the 8th December seeking approval to commence the process.

The Chairman thanked Members who had attended the Task Group Meeting and said that the feeling had been that staff should not be dissuaded from taking risks but they had to be identified and managed properly. Perhaps in the past the Council had been too risk averse which could stifle initiative, but it would be important to understand where and why risks should be taken. That is why it was important to

produce a new Risk Register and this would be done with the help of Zurich in the New Year. As he saw it there were three major risk areas at present which were: -

- The Council's capital investments
- The overspends on the three major KCC backed road projects
- Changes to the current method of financing the HRA.

In response to a question the Chairman said that in terms of governance it was this Committee that took the role of 'risk committee' and it therefore needed to receive reports relating to risk. He hoped that the Committee would shortly see a draft of the type of update report they would receive including a traffic light system or similar illustrating progress.

Resolved:

That the actions that have been set in train by the Risk Management Task Group be endorsed.

236 Internal Audit: Six-Month Interim Report

The report provided details of the work of the Internal Audit Team between April and September 2011. The Committee was asked to agree that the work provided continuing evidence of an adequate and effective audit service.

The Chairman mentioned the Use of Consultants review that had recently been considered by the Overview & Scrutiny Committee, where Members had been concerned that action had not been taken quickly enough following the initial audit review. The Deputy Chief Executive explained that in response to this, a report had been prepared for the Cabinet on the 8th December 2011 regarding revisions to contract standing orders which sought to simplify the definition and engagement process of any commissioned works and to put proper management procedures in place. The historical problem had been that the use of the word 'Consultant' had been misleading as it did not always refer to someone being engaged as a specialist, but perhaps just as temporary or agency staff.

Resolved:

That it be agreed that the report continues to provide evidence of an effective internal audit arrangement, and that management is taking the necessary action to implement audit recommendations.

237 Annual Governance Statement – Progress on Remediating Exceptions

The report outlined progress against the two areas for further work included in the Annual Governance Statement agreed by the Committee in June 2011. The two highlighted matters were: - a need for a review of the Council's risk management approach; and the need to review principles relating to partnership governance.

In response to a question from the Chairman it was advised that the Task Group to consider the draft partnership principles had not yet met, but they were hoping to arrange a meeting before Christmas. The Members of this Group were Councillors Link, Marriott and Smith.

Resolved:

- That (i) the progress with plans to address the Council's risk management approach be noted.**
- (ii) it be noted there has been a delay with commencing discussions in relation to draft partnership principles and that this item will now be considered at the next meeting of this Committee following discussions with the nominated Task Group.**

238 Date of Next Meeting

Resolved:

That the next Meeting of this Committee be held on Tuesday 6th March 2012 (previously 7th February).

239 Report Tracker and Future Meetings

It was confirmed that a number of further items would be added to the agenda for the next meeting on the 6th March 2012 and these would be added to the Future Meetings Tracker.

Resolved:

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

Queries concerning these Minutes? Please contact Danny Sheppard:
Telephone: 01233 330349 Email: danny.sheppard@ashford.gov.uk
Agendas, Reports and Minutes are available on: www.ashford.gov.uk/committees

Report To: Audit Committee

Date: 6 March 2012

Report Title: Reports of the external auditor (Audit Commission)

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

Summary:	The District Auditor is presenting three reports to this committee covering: the 2010-2011 grant claim audit; the proposed 2011-2012 external audit plan of work; and an update on general matters including the position with the outsourcing of the Audit Commission's work. The District Auditor will be represented at the meeting by Lynn Clayton and a colleague who will introduce the reports and take questions.
-----------------	---

Key Decision: Not applicable to this committee

Affected Wards: None specifically

Recommendations: That the Audit Committee be asked to note the following reports of the external auditor:

- i. The 2010/2011 certification of claims and returns – annual report (Report A)
- ii. Annual Audit Plan 2011/2012 (Report B)
- iii. Audit Commission's progress report (Report C)

Financial implications: A) *Grant claims audit:*

The grant claim audit highlighted a small number of errors, though none has resulted in any material change to the council's financial position.

Out of over £38 million of housing and council tax benefit paid the audit found a £2 (two pounds) over-recovery from the DWP, this has since been

corrected, and a five instances of small underpayments to claimants which have since been rectified. The total volume of benefit claims was over 9,000 in the year.

The housing subsidy claim (for HRA costs) found an error in the stock data used by the finance team compared to the data held by the housing service. This relates to stock data changes resulting from the Stanhope PFI and has since been corrected. The amendment (-£214,265) was, however, amending a memorandum set of data and did not affect the cash value of the housing subsidy claim and did not affect the cash position of the council.

There were no amendments to the £38.8 million business rates return.

B) Annual Audit Plan 2011/2012

The associated external audit fee is £132, 525 and is within the council's budget. It is a reduction of about £7,000 on the fee for the previous year. In addition fees for the grant claims audit are estimated at £37,000 and again within the council's budget.

C) Audit Commission's Progress Report

There are no specific financial implications that arise at this time from this report.

Risk assessment:

Not applicable. The external auditor's reports, however, highlight that the council is managing its performance and financial risks well.

Equalities impact assessment:

Not applicable

Other material implications:

The progress report discusses the next steps with the outsourcing of Audit Commission's services. Further reports about progress and the implications for the council will follow later in the year.

Background papers:

No specific other papers

Contact:

paul.naylor@ashford.gov.uk 01233 330436

Certification of claims and returns - annual report

Ashford Borough Council

Audit 2010/11



Contents

Introduction	3
Summary of my 2010/11 certification work	4
Results of 2010/11 certification work	5
Summary of progress on previous recommendations	8
Summary of recommendations	9
Summary of certification fees	10

Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return and decide whether to place reliance on it. Depending on the outcome of that assessment, I undertook testing to agree form entries to underlying records and test the eligibility of expenditure or data.

The Authority may amend the claims and returns before my certification where I agree with officers that the claim entry is incorrect. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

The Authority has performed satisfactorily in preparing claims and returns in 2010/11.

The Authority presented six claims for certification in 2010/11, all by the specified deadlines.

I certified two claims and returns without amendment, but the other four claims were amended post audit. In addition I issued a qualification letter accompanying my certificate on one of the claims and returns.

Table 1: Summary of 2010/11 certification work

Number of claims and returns certified	
Total value of claims and returns certified	81,661,246
Number of claims and returns amended because of errors	4 out of 6
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£27,617

The Authority significantly amended the figures on two of the claims following my audit (the housing subsidy and housing base data returns). These amendments were mainly due to an overstatement in the number of dwellings properties included in the claims. None of the issues I identified from my certification work have a material impact on the accounts, but the Council will need amend its 2011/12 accounts to correct the property overstatements identified during my grant work.

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights any significant issues arising from that work.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made	Was a qualification letter issued?
Housing and council tax benefit scheme	38,305,103	Y	2	Yes
HRA subsidy	-3,765,535	Y	-214,265	No
Housing finance base data return	n/a	Y	Dwelling numbers reduced by 21	No
National non-domestic rates return	38,851,040	Y	Nil	No

Housing and council tax benefit scheme

The housing and council tax benefit claim is by far the Authority's largest grant claim totalling over £38 million. A key element of our certification approach is detailed testing of a sample of benefit cases from the entries on the Authority's subsidy claim form. The testing considers whether the Authority has awarded benefit in accordance with the regulations, and recorded it correctly for subsidy purposes.

Our initial testing of 80 benefit cases identified six errors as follows:

- Two errors on rent rebates; because of one incorrect claim start date and one error in manually entered child benefit,
- Three errors on rent allowances because of wrong anniversary dates in two cases and an error in the input of payslip data in another case, and
- One error on council tax because of an error in the calculation of self-employed earnings in one case.

We completed more testing on another 40 cases for each of the error types identified. This testing did not identify any more errors. Most of the errors we found were underpayments, so I reported these in the qualification letter and they were subsequently rectified by the Authority. One error we found was an overpayment, so the Authority amended the claim for this error before my certification.

Housing finance base data return

The housing finance base data return details the housing assets held by the Authority. During our sample testing on this claim we identified one block of maisonettes which the Authority demolished in 2010/11, but did not remove from its asset register. Extra follow-up work, by the Authority, identified an overstatement of 21 properties in the asset register in total. The Authority amended the claim for these overstatements before my certification.

HRA subsidy

The Authority agreed to amend the housing subsidy claim for several errors we identified on audit before my certification. The amendments corrected entries for dwelling numbers, the average amount of borrowing, the average rate of interest and the capital financing requirements. Dwelling numbers were changed to reflect the amendments made during my earlier housing base data audit. The other changes were mainly due to amendments made by the Authority to include its PFI scheme, which the guidance had required them to exclude in previous years.

Table 3: **Claims between £125,000 and £500,000**

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Qualification letter
Pooling of housing capital receipts	219,388	12	No
Disabled facilities	306,000	Nil	No

Pooling of housing capital receipts

Receipts are paid over to the department quarterly. Where a payment is made after the specified deadline the Authority should calculate interest on the late payment and reflect this in the return. The Authority made one payment late; but it did not calculate the interest on this late payment or include it in the return. The Authority amended the claim before my certification.

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

We made one recommendation in our 2009/10 annual grant report about the pooling of housing capital receipts claim. The Authority did not action this recommendation in the 2010/11 claim.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Pooling of housing capital receipts - Make all payments by the required quarterly deadlines or include the interest charge incurred for late payment in the year end return	Medium	31 March 2011	Finance Manager	Recommendation not implemented in 2010/11 claim (see above).	All 2011/12 payments made to date have been paid over by the quarterly deadlines. It is anticipated the final payment will be made on time.

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation.

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Agreed action	Date for implementation	Responsible officer
Housing subsidy and housing finance base data returns - Ensure all additions and disposals of housing properties are accurately reflected in the Authority's asset register and claims and returns.	High	A reconciliation between the housing system, asset register and repairs system has been completed and this will be repeated prior to submitting the required returns for 2011/12.	30 June 2012	Senior Accountant Front Line Services
Pooling of housing capital receipts - Make all payments by the required quarterly deadlines or include the interest charge incurred for late payment in the return.	Medium	All 2011/12 payments made to date have been paid over by the quarterly deadlines. It is anticipated the final payment will be made on time.	30 June 2012	Principal Accountant

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	17,709	17,647	
Pooling of housing capital receipts	624	1,689	2010/11 Part A only
HRA subsidy	2,858	1,270	2009/10 Part A only
Housing finance base data return	2,695	1,459	2009/10 Part A only
National non-domestic rates return	1,869	1,889	
Disabled facilities	622	769	Control environment assessment not required in 2010/11
Planning and reporting	1,240	1,341	
Total	27,617	26,064	

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



Audit plan

Ashford Borough Council

Audit 2011/12



Contents

Introduction.....	3
Accounting statements and Whole of Government Accounts.....	4
Value for money.....	7
Key milestones and deadlines	8
The audit team	9
Independence and quality	10
Fees	11
Appendix 1 – Independence and objectivity	13
Appendix 2 – Basis for fee.....	15
Appendix 3 – Glossary	16

Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local government bodies.

My audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Accounting statements and Whole of Government Accounts

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I need to understand the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Housing property</p> <p>There have been major redevelopments at Stanhope which have resulted in a number of asset disposals in 2010/11 and additions in 2011/12. Our 2010/11 grant claim work identified property disposals which had not been processed in the fixed asset register. The Council needs to ensure the accounts accurately reflect the number and value of properties, incorporating any valuation changes. Any other material variations to the PFI arrangement also need to be considered and reflected as appropriate. Given the material nature of potential transactions there is a risk the financial statements are materially misstated.</p>	<p>Tests of detail on the accuracy, completeness and valuation of housing property.</p> <p>Consideration of any other PFI contract changes and impact on the accounts.</p>
<p>HRA reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. The Council's provisional settlement payment is £114.3 million. This will adjust the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>Review of management oversight of HRA reforms and transactions required by the Authority.</p> <p>Tests of detail on the resulting settlement payment</p>

Testing strategy

My audit involves:

- review and re-performance of work of your internal auditors;
- testing of the operation of controls;
- reliance on the work of other auditors (pension fund disclosures);
- reliance on the work of experts (valuers and pension fund actuary); and
- substantive tests of detail of transactions and amounts.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The nature and timing of my proposed work is as follows.

Table 2: **Proposed work**

	Work to be completed	Start date	Expected Completion
Pre-statements – phase 1	<ul style="list-style-type: none">■ System walkthroughs■ Review of internal audit	12 December 2011	03 February 2011
Pre-statements – phase 2	<ul style="list-style-type: none">■ Testing of key controls■ Agreed early substantive testing	19 March 2012	23 March 2012
Post statements	<ul style="list-style-type: none">■ Substantive testing of account balances■ All other necessary work to give our audit opinion	1 July 2012	30 September 2012

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of significant risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following significant risk that I will address through my work.

Table 3: **Significant risks**

Risk	Audit response	Output
Business planning The external financial environment remains a very challenging one across local government. Members and officers are continuing to explore new ways of working and to identify efficiencies in business planning and in service delivery.	We will review the Council's progress in updating its medium term financial strategy and its business planning. We will assess overall financial standing and the Council's progress in delivering its medium term financial strategy.	

Key milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	December – March 2012	
Opinion: receipt of accounts and supporting working papers	30 June 2012	
Opinion: substantive testing	July – September 2012	
Present Annual Governance Report at the Audit Committee	September 2012	Annual Governance Report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Andy Mack District Auditor	a-mack@audit-commission.gov.uk 0844 798 2846	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive.
Deborah Moorhouse Audit Manager	d-moorhouse@audit-commission.gov.uk 0844 798 1373	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £132,525, as set out in my letter of 14 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £132,525 which represents a 5 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- carry out a robust review of the financial statements prior to submission to audit; and
- ensure accurate and up to date information is provided by Housing.

Total fees payable

In addition to the fee for the audit, the Audit Commission will charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 6: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	£132,525	£139,500	
Non-audit work			
Total	£132,525	£139,500	

In addition we will charge a separate fee for any grant claims certified during 2011/12. This fee will vary from year to year depending on the number of claims required to be signed off, the complexity of the claims concerned and matters arising from our review. Our estimate for 2011/12 is that the budget for this work will be up to £37,000. We will let you know once we have more detail of the work involved.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 7: **Independence and objectivity**

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.</p>	<p>All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.</p>

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively;
 - there are no significant changes to the Council’s major financial systems and
 - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 2 July 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit **Committee** **update**

Ashford Borough Council

Audit 2011/12

The Audit Commission is a public corporation set up in 1983 to protect the public purse.

The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.

We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.

Contents

Introduction	2
Progress report	3
Financial statements.....	Error! Bookmark not defined.
Our responsibilities	Error! Bookmark not defined.
Financial statements.....	3
VFM conclusion	3
Certification of claims and returns	4
Government response to consultation on the future of local public audit...5	
Update on the externalisation of the Audit Practice.....7	
Other matters of interest	9
2010/11 Accounts	9
Managing Workforce Costs	10
CIPFA's Prudential Code for Capital Finance.....	11
2011/12 Accounts: CIPFA Guidance Notes for Practitioners.....	12
For information: Board Governance Essentials	12
Local Government Finance Bill.....	13
Guide to HRA Self Financing.....	13
Key considerations	14
Appendix 1 – Assurances for 2011/12 audit opinion work.....	15
Appendix 2 – Audit progress as at 9 February 2012.....	19
Appendix 3 - Contact details.....	23

Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.

Executive summary

- 4 We continue to meet with finance staff to discuss progress and our visit to complete our phase one interim work took place in December 2012. There are no significant matters arising from our audit which we need to bring to your attention at the current time.
- 5 Appendix 1 of this report sets out matters we are required to discuss with those charged with governance, we would appreciate a formal response either by letter or email by 30 April 2012.

Andy Mack

District Auditor

9 February 2012

Progress report

Financial statements

1 We are required to audit the financial statements and to give our opinion on:

- whether they give a true and fair view of the financial position of the Council and of its income and expenditure for the year in question; and
- whether they are prepared properly in accordance with relevant legislation and applicable accounting standards.

2 We are also required to:

- review whether the Annual Governance Statement is presented in accordance with relevant requirements; and
- Audit the whole of government accounts consolidation pack based on the information provided in the financial statements.

3 Appendix 2 sets out the progress made in completing our work.

4 We continue to hold regular meetings with the Finance team to discuss issues arising in relation to the 2011/12 financial statements audit. We have also held discussions with Internal Audit to discuss the progress of their internal audit plans and any emerging issues highlighted from their reviews.

VFM conclusion

5 Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

6 Following completion of our risk assessment the work will focus on:

- The progress made in updating the medium term financial strategy and business planning; and
- We will assess the overall financial standing and progress in delivering its medium term financial strategy.

7 We will minimise the burden for you from this work, by making use as far as possible of existing Council information. We will aim to provide helpful and constructive feedback during and at the end of the audit.

Certification of claims and returns

8 In 2011/12 we anticipate being required to certify the following grant claims and returns:

- Housing and Council Tax Benefits Subsidy Claim;
- National Non-Domestic Rates Return;
- Pooling of Housing Capital Receipts;
- HRA subsidy return;
- Housing Finance Base Data Return; and
- Disabled Facilities Grant Return (dependent on value of the return).

9 Each return has a separate deadline for certification and we will liaise with staff to ensure work is completed to meet the specified deadline.

Government response to consultation on the future of local public audit

10 In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011, the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

11 The Audit Commission is currently in the process of the award of contracts for the work currently undertaken by the Audit Practice for the period 2012/13 to either 2014/15 or 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

12 Thereafter, the government proposes that a new local public audit regime will apply. The key features of that regime are as follows.

- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- Mirroring the Companies Act provisions, auditors will be subject to the overall regulation of the Financial Reporting Council (the FRC). The FRC will authorise one or more Recognised Supervisory Bodies (in practice, the professional institutes) to register and supervise audit firms and engagement leads.
- Directly-elected local government bodies will appoint their own auditor on the advice of an independent audit appointment panel with a majority of independent members. Such panels may be shared between audited bodies.
- Audited bodies must run a procurement exercise for their external audit appointment at least every five years, although there would be no bar on the reappointment of the incumbent audit firm (for a maximum of one further five-year term);
- Audited bodies will be able to remove their auditor, but only after due process, involving the independent audit appointment panel and culminating in a public statement of the reasons for the decision.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.

- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The right to object would be retained, but the auditor will be given the power to reject vexatious, repeated or frivolous objections.
- Grant certification will be subject to separate arrangements between grant paying bodies, audited bodies and reporting accountants (who could be the external auditors).
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

13 The government is holding further discussions with audited bodies and audit firms to develop its proposals. The Regional Improvement and Efficiency Partnerships are organising events in January and February 2012 to which audited bodies have been invited. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

Update on the externalisation of the Audit Practice

14 The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice. An update on progress was provided in Eugene's subsequent letter of 10 November 2011.

15 The key points are as follows.

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (ie four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private sector providers the opportunity to compete for the contracts.
- Thirteen potential providers were invited to tender following the initial pre-qualification stage. The deadline for return of the tenders was 16 December 2011. Tenders received are currently being evaluated. The Commission plans to announce the successful tenderers in March 2012.
- The Commission is planning to set out, early in 2012, the consultation process to be followed for individual audit appointments. For bodies currently audited by the Audit Practice, there will be an opportunity to attend an introductory event in each contract area with the Commission and the firm awarded the contract. The events will take place in May 2012.
- Appointments will start on 1 September 2012. As such, the Commission is extending the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The Commission's Director of Audit Policy and Regulation wrote to clients on 19 December 2011 setting out more details on this 'interim' appointment.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

16 Further details are available on the Commission's website. We will continue to keep you updated on developments and will provide a verbal update at the Audit Committee meeting.

17 Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities –delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

Other matters of interest

2010/11 Accounts

18 In December 2011 the Audit Commission published a report - Auditing the Accounts 2010/11 - which summarises its findings of the accounts audits in 2010/11.

19 The report covers the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and other local public bodies. In addition to auditors' work on the 2010/11 financial statements, the report also covers:

- the results of the first year of International Financial Reporting Standards (IFRS) implementation;
- auditors' work on the Whole of Government Accounts returns;
- auditors' local value for money work;
- public interest reports and statutory recommendations issued by auditors since December 2010; and
- the key challenges facing bodies for 2011/12.

20 Auditors were able to give opinions on the accounts by the target date of 30 September 2011 at most organisations and this performance compares well with the previous year.

21 However, the challenges presented by the transition to IFRS are demonstrated by an increase in the number of bodies, from seven last year to eighteen this year, where the auditor's opinion was still outstanding after 31 October. There was also a significant increase in the number of bodies needing to make material adjustments to their accounts following the audit.

22 On 18 January 2012, the Audit Commission published 'Let's be clear: Making local authority IFRS accounts more accessible and understandable'.

23 This briefing supplements the report on the 2010/11 accounts referred to above and focuses on a long-running debate of how to make local government accounts easier to understand.

24 While the statutory accounts give comprehensive information on each local authority's financial position and performance, reflecting the range of activities which they cover, they are a poor way of communicating the key information to lay readers.

25 The briefing notes that:

- elected members and local people would benefit from having access to well-presented extracts from the accounts, which would provide the key information on each authority's financial position and performance;

- the accounting profession and the Audit Commission could do more to encourage auditors and preparers of accounts to reduce clutter in statutory accounts; and
- each authority could do more to ensure their accounts are shorter and more accessible. Those preparing accounts need to look critically at the previous year's accounts. They should identify how these accounts could be sharper and more focused before starting work on the next set.

26 The briefing concludes by identifying possible steps to make local authority accounts more accessible and easier to understand, and the implications of doing so.

27 The Audit Commission is seeking views on the issues raised within the briefing and has invited comments by 16 March 2012 - further information on this is available on the Audit Commission's website.

Managing Workforce Costs

28 The Audit Commission and Local Government Association have jointly launched 'Work in progress: Meeting local needs with lower workforce costs'.

29 The joint report - which can be found on the Audit Commission's website - is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

30 As government funding for councils shrinks by over a quarter between 2011/12 and 2014/15, councils need to reduce their workforce costs substantially while still providing much needed services. Not all councils face the same financial challenges, but the message is that all must reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

31 Councils are finding ways to cut their pay bills without losing jobs, but the report says that redundancies are inevitable. Local government was already reducing posts before the cuts in government funding. In the past year an estimated 145,000 jobs have gone and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

32 The report is supported by a number of resources including:

- an agency workers expenditure tool which shows councils how much they spend on agency workers, compared with groups of similar councils;
- a workforce expenditure tool which shows councils how much they spend on staff as a proportion of their net current expenditure, and how this has changed over time;
- five case studies which provide examples of the different approaches councils are taking to reduce the costs of employing people while protecting valuable services. The case studies show what the councils did and why - and the benefits achieved; and

- a practical guide on how to undertake effective pay benchmarking, providing a series of steps to follow when starting a pay benchmarking process and highlighting the main issues that should be considered.
- 33** The report is supplemented with a briefing for elected members that includes a number of questions designed to help members assess how well their council decides the size, shape and cost of its workforce and how these decisions will affect services and communities.
- 34** The questions are in two parts:
- the information that should be available to members about the workforce; and
 - the savings strategies councils could follow in the light of that information.

CIPFA's Prudential Code for Capital Finance

35 CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

36 The code also includes guidance on the treasury management implications of the housing self-financing reforms.

37 Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

38 To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

39 The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

40 The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both designed to support and record local decision making and are not designed to be comparative performance indicators.

2011/12 Accounts: CIPFA Guidance Notes for Practitioners

41 CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

42 The key changes to your financial statements in 2011/12 will also be covered by our final accounts workshops.

For information: Board Governance Essentials

43 The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

44 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

45 This guide may provide interesting reading for all members.

Local Government Finance Bill

46 In December 2011 the government introduced proposals to devolve greater financial powers and freedoms to councils. The Local Government Finance Bill sets out the legislative foundations to implement the changes from April 2013. The most significant proposals relate to non-domestic rates, which are currently pooled and redistributed nationally.

47 The Bill provides for councils to:

- retain a portion of their business rate growth;
- borrow against future income from business rates to pay for roads and transport projects alongside other local priorities;
- ensure a stable starting point for all authorities. No authority will be worse off as a result of their business rates base at the start of the scheme;
- establish a national baseline alongside a system of top ups and tariffs. Councils with business rates in excess of a set baseline would pay a tariff to government whilst those below would get an individually assessed top up from government; and
- create a levy to take back a share of growth from those councils that gain disproportionately from the changes. This money would be used to fund a safety net providing financial help to those authorities which experience significant drops in business rates, for example caused by the closure or relocation of a major business.

48 The Bill provides for much of the detail of the arrangements, including the sharing of business rate growth between billing and precepting authorities, to be left to secondary legislation.

Guide to HRA Self Financing

49 The introduction of self-financing to the housing revenue account (HRA) in April 2012 will fundamentally change the way that local authority housing is funded.

50 CIPFA has therefore recently produced a publication which brings together the latest guidance to assist those working in the sector to understand the changes and help with their implementation.

Key considerations

51 The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council reviewed the Audit Commission's report on the 2010/11 accounts and, in particular, considered the key challenges facing bodies for 2011/12?
- Has the Council reviewed its 2010/11 accounts and identified ways in which these could be streamlined or clarified?
- Has the Council reviewed the Audit Commission / Local Government Association joint report on managing workforce costs and is the Audit Committee satisfied that appropriate use has been made of the supporting materials?
- Has the Council* circulated the briefing for elected members on the Audit Commission's workforce report to Members? Is the Audit Committee satisfied that the questions within the briefing have been properly considered by the Council*?
- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?
- Has the Council reviewed CIPFA's guidance on HRA self-financing and made satisfactory progress for its implementation?

Appendix 1 – Assurances for 2011/12 audit opinion work

Understanding how the Audit Committee gains assurance from management

I have a good understanding of how the Audit Committee as those charged with governance gains assurance over management processes and arrangements. This enables me to deliver an efficient audit, reducing the time your staff need to spend responding to auditor queries.

However, auditing standards require me to formally update my understanding annually. Therefore, I am writing to ask that you please provide a response to the following questions. Where your response to questions 2 to 5 is 'yes', please provide details.

1) How do you exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority code of conduct); and
- communicating to you the processes for identifying and responding to fraud or error.

2) How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011-12?

3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011-12?

4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?

5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

In addition to the above questions about how you gain assurance from management, I have included at Appendix 1, 8 questions about your views on fraud. Your responses will inform my assessment of the risk of fraud and

error within the financial statements, which in turn determines the extent of audit work I undertake.

Please provide a response by 30 April 2012 and please contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Andy Mack
District Auditor

Appendix 1

No.	Questions for those charged with governance.	Those charged with governance response
1	Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?	
2	<p>Do you suspect fraud may be occurring within the Authority?</p> <ul style="list-style-type: none"> ➤ Have you identified any specific fraud risks within the Authority? ➤ Do you have any concerns that there are areas within your Authority that are at risk of fraud? ➤ Are there particular locations within the Authority where fraud is more likely to occur? 	
3	<p>Are you satisfied that internal controls, including segregation of duties, exist and work effectively?</p> <ul style="list-style-type: none"> ➤ If not where are the risk areas? ➤ What other controls are in place to help prevent, deter or detect fraud? 	
4	<p>How do you encourage staff to report their concerns about fraud?</p> <ul style="list-style-type: none"> ➤ What concerns about fraud are staff expected to report? 	
5	<p>From a fraud and corruption perspective, what are considered to be high risk posts within your Authority?</p> <ul style="list-style-type: none"> ➤ How are the risks relating to these posts identified, assessed and managed? 	
6	<p>Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <ul style="list-style-type: none"> ➤ How do you mitigate the risks associated with fraud related to related party relationships and transactions? 	
7	<p>Are you aware of any entries made in the accounting records of the Authority that you believe or suspect are false or intentionally misleading?</p> <ul style="list-style-type: none"> ➤ Are there particular balances where fraud is more likely to occur? ➤ Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the Authority? ➤ Could a false accounting entry escape detection? If so, how? ➤ Are there any external fraud risk factors, such as benefits payments or collection of tax revenues which are high risk of fraud? 	

8	<p>Are you aware of any organisational, or management pressure to meet financial or operating targets?</p> <ul style="list-style-type: none">➤ Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	
---	--	--

Appendix 2 – Audit progress as at February 2012

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
Audit fee	to April 2011	Original fee letter agreed by the Audit Committee 1 February 2011.	April 2011	Work plan agreed, as summarised below.
Financial Statements				
Interim audit: Compliance with International Standards on Auditing- assessing the effectiveness of the controls operating over the material financial systems	December 2011 to March 2012	We will complete updating our documentation and walkthroughs of material systems in February 2012. Where appropriate we will test key controls identified to assess their operating effectiveness in March 2012. As part of this we will draw on the findings of internal audit as appropriate. We will also complete any early substantive testing where possible.	Interim audit memorandum to be issued March 2012 if required.	We plan to place reliance on key controls where identified.

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
Financial Statements audit	June to July 2012	Onsite visit due to commence in July 2012. However, we have begun to consider items that could require specific testing during the final accounts audit.	Annual Governance Report due September 2012. A Final Accounts Memorandum will be issued if there are any other key issues to report.	The Annual Governance Report will summarise our conclusions under the Code of Audit Practice for those charged with governance prior to giving our opinion on the financial statements and our value for money conclusion.
Whole of Government Accounts	September 2012	We are required to audit the whole of government accounts consolidation pack. Our work is performed following completion of the audit of the Council's financial statements.	Audit report provided September 2012	
VFM conclusion	January to March 2012	In 2011/12 auditors will again give their statutory Value for Money (VFM) conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria specified by the Commission, relating	VFM conclusion September 2012. Findings to be reported in the Annual Audit Letter 2012	Ongoing updates to be provided

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
		<p>to a Council's arrangements for:</p> <ul style="list-style-type: none"> ■ securing financial resilience - focusing on whether the Council is managing its financial risks to secure a stable financial position; and ■ challenging how it secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency. <p>Our work will commence in February 2012.</p>		
Certification of grant claims and returns	July onwards	<p>In 2011/12 we anticipate being required to certify the following grant claims and returns:</p> <ul style="list-style-type: none"> ■ Housing and Council Tax Benefits Subsidy Claim; ■ National Non-Domestic Rates Return; 	Various deadlines	We will liaise with staff to ensure work is completed to meet the specified deadlines.

Area of work	Timetable	Progress to date	Final report due/issued	Summary of findings/other comments
		<ul style="list-style-type: none"> ■ Pooling of Housing Capital Receipts; ■ HRA subsidy return; ■ Housing Finance Base Data Return; and ■ Disabled Facilities Grant Return (dependent on value of the return). 		

Appendix 3 - Contact details

52 If you would like further information on any items in this briefing, please feel free to contact either myself or Deborah Moorhouse, Audit Manager.

53 Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: www.audit-commission.gov.uk.

Andy Mack

District Auditor

0844 798 2846

07765 898682

a-mack@audit-commission.gov.uk

Deborah Moorhouse

Audit Manager

0844 798 1373

07971 608125

d-moorhouse@audit-commission.gov.uk

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946

Agenda Item No: 5
Report To: **Audit Committee**
Date: 6 March 2012
Report Title: Presentation of Financial Statements
Report Author: Maria Nunn – Principal Accountant
Ben Lockwood – Finance Manager



Summary: The Council adopted International Financial Reporting Standards for the closure of the 2010/11 accounts, there are some updates for the 2011/12 accounts. This report will look at how these updates will impact on the council's accounts.

The key areas of focus are the changes to the accounting policy for heritage assets, exit packages and community infrastructure levy (CIL).

HRA self financing reform will increase the authorities outstanding debt as at 31 March 2012, see paragraph 14 for detail.

Key Decision: No

Affected Wards: None specifically

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

- **Note the report**
- **Note draft accounting policy for Heritage Assets (appendix A)**

Financial Implications: None

Risk Assessment This report covers updates to The Code (Code of Practice on Local Authorities Accounting) – if the council fails to implement the changes correctly there is a risk of audit issues and reputational risk.

Equalities Impact Assessment No

Other Material Implications: None

Background Papers: Draft Closing Timetable 2011/12

Contacts: Maria.nunn@ashford.gov.uk – Tel: (01233) 330547
Ben.lockwood@ashford.gov.uk – Tel: (01233) 330540

Report Title: Presentation of Financial Statements

Purpose of the Report

1. To update members on the progress of the production of the Statement of Accounts 2011/12 (the Statement) and how changes are to be managed and implemented.

Issue to be Decided

2. Members are asked to note the report and 2011/12 Statement of Account changes.

Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March. These are then audited by the Council's external auditor and an opinion issued by the end of September.
4. In the lead up to adoption of International Financial Reporting Standards (IFRS) there were a number of changes each year to limit the impact of implementing IFRS in one year. This council, like all other local authorities, fully adopted the new standards in 2010/11.
5. This year there are a few changes to the Code (Code of Practice on Local Authorities Accounting) following the IFRS implementation. These changes are to be incorporated into the final accounts for 2011/12.

Audit Wrap Up and Closing Timetable

6. Officers met with the audit team to discuss any issues that had arisen in the closing process for 2010/11 in early February and have incorporated changes into the closing programme for 2011/12.
7. Overall officers and auditors were happy with both the audit process and happy with the working relationship. Communication regarding the audit progress to officers was highlighted as an issue during the 2009/10 closing process. This was improved during the 2010/11 round and officers are hoping this will continue. Holding regular update meetings through the audit is important and needs to be maintained for 2011/12 closing period.
8. Last year the accountancy team changed the referencing of working papers following comments from the audit team regarding the difficulty of finding the information required. The audit team agreed that the changes did improve the referencing and it was easier to locate the correct working papers.
9. The council has a change to the audit team this year with a new principal auditor, Daniel Woodcock. Daniel has been part of the audit team at Ashford for a number of years, therefore it is hoped there will be a smooth transition.
10. The Audit of the 2011/12 accounts will commence on 2 July for three to four weeks, with Audit Commission commencing their planning work on 25 June.

They are due to Audit the Whole of Government Accounts return in August. The controls testing programme is underway with no issues raised to date.

11. Officers have completed a draft closing timetable that is currently being reviewed by the Accountancy team. The key deadlines are:
- service revenue accounts and Collection Fund closed by 20 April
 - balance sheet codes closed by 11 May
 - a draft statement by 1 June

This is consistent with previous timetables and is considered achievable.

Accounting Changes for 2011/12

12. The adoption of FRS 30 – Heritage Assets
- The authority is required to include an accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) or not recognised in the balance sheet.
 - An example of assets within this class are:
 - The town centre tank, this is currently held with no value
 - The Victoria Park fountain, this is currently held at cost as a community asset
 - Restatement of 2010/11 for the opening balance of heritage assets.
 - It is proposed to set a De-minimus level for these assets of £10,000 and to, where possible, use the insurance valuation. A draft accounting Policy is attached in appendix A.
13. Other Changes:
- Exit Packages – requires the council to disclose the number and value of exit packages agreed. Where a confidentiality agreement has been signed, it is the view of the Monitoring Officer that these should not be disclosed.
 - Community Infrastructure Levy (CIL) – the council has not implemented this levy but draft proposals for the scheme are expected by the end of 2012 with a possible implementation date of spring 2013. The guidance notes include direction on the accounting requirements for this levy and when a levy is introduced an accounting policy will be introduced.

Housing Revenue Account Self-Financing

14. From 1 April 2012 the government are implementing a self financing arrangement for all councils with housing stock, this means ‘buying out’ of the current subsidy system. As a result we will need to take out a number of loans

with varying terms, amounting to £124,333,188 (currently £5,991,150), as agreed with the Council's Treasury Advisors, Arlingclose. The transactions required in the current financial year and will impact upon the Council's balance sheet and cash flow statement, they are as follows:

- Loan applications submitted by 26 March 2012
- Loan received two working days after the application, 28 March 2012
- Payment to CLG on 28 March 2012

15. Officers have started discussions with the external Auditors regarding their involvement in this transaction.

Risk Assessment

16. For the 2011/12 Statement of Accounts there are few changes to the format of the statement and material changes to accounting policy. Therefore the risks are considered to be low.
17. The HRA buyout transactions are material but will be treated in a similar way to the other loans and therefore are viewed to be low risk.

Consultation

18. Members are asked to note the changes to the final accounts process.

Conclusion

19. The accounting updates have been reviewed and amendments have been made to the accounting policies which brings the Council in-line with requirements.

Contact: Maria Nunn
Ben Lockwood

Email: maria.nunn@ashford.gov.uk
ben.lockwood@ashford.gov.uk

Draft Accounting Policy – Heritage Assets

Held within Property, Plant and Equipment, heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. Valuations are determined by the insurance valuation, or where not available the historical cost. Although there are no prescribed minimum periods for review, the assets will be reviewed in line with the insurance policy and material changes will be incorporated into the accounts. A de-minimis level has been set at £10,000 for heritage assets based on the method of valuation above.

Agenda Item No: 6
Report To: Audit Audit Committee
Date: 6 March 2012
Report Title: Internal Audit Operational Plan 2012/13
Report Author: Head of Audit Partnership



Summary:	The report sets out the one-year Internal Audit operational plan and asks that the Audit Committee note the contents of the Plan.
-----------------	---

Key Decision: NO

Affected Wards: N/A

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

Note the contents of the one-year operational Internal Audit plan (shown at Appendix 1)

Policy Overview: Not applicable

Financial Implications: None directly

Risk Assessment Yes

Equalities Impact Assessment No

Other Material Implications: Legal: The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control'.

Background Papers: None

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

Report Title: Internal Audit Operational Plan 2012/13

Purpose of the Report

1. The report sets out the one-year operational Internal Audit plan for the financial year 2012/13 and asks that the Audit Committee note the contents.
2. The purpose of the report is to meet the requirements of the statutory Code of Practice for Local Government in the United Kingdom in relation to audit planning; and to help to discharge the section 151 officer's responsibility for financial control; and to inform Management / Members of the planned audit work to be undertaken in 2012/13.

Issue to be Decided

3. A risk based internal audit operational plan has been produced to meet the requirements of the Accounts and Audit Regulations 2011.
4. The Audit Committee is asked to note the contents of the plan.

Background

5. The Committee previously received a report on the Internal Audit Strategic Plan at its meeting on 28 September 2011. The report explained the process for the creation of the plan and the elements that were considered in deciding its content.
6. The strategic plan set out the proposed work of the Internal Audit team for the three financial years, 2011/12, 2012/13 and 2013/14. The Audit Committee approved the plan.
7. The approved strategic plan has been used to create the operational work programme for 2012/13 at Appendix 1.
8. The Accounts and Audit Regulations 2011 place a statutory duty on the Council to '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'. The 'proper practices' for internal audit are defined as being those which are set out in the Code of Practice for Internal Audit in Local Government in the UK – published in 2006 by CIPFA.
9. The Code of Practice requires the Head of Internal Audit to prepare a risk-based plan to implement the audit strategy.
10. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation.

11. The Code states that the Head of Internal Audit is responsible for the delivery of the audit plan. Significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the audit committee.

Preparation of the operational plan

12. The majority of the work of Internal Audit is identified in the three-year strategic audit plan which takes full account of organisational objectives and priorities. The operational plan is an extract from the strategic plan.
13. The plan gives specific consideration to:
 - the arrangements for the prevention of fraud and corruption
 - corporate governance
 - compliance with legislation/changes in legislation
 - compliance with codes of conduct
 - compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
 - the 'national agenda'
 - coordinating work, or at least as much as is practical, with the external auditors to ensure that best use is made of audit resources, and:
 - coordinating work with the other three teams that form the Mid Kent Audit Partnership
14. The plan seeks to:
 - provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness
 - give adequate coverage to allow the external auditors to place reliance on the work of Internal Audit
 - allow objective examination, evaluation and reporting on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.

The Plan

15. The plan (Appendix 1) shows the projected internal audit work for 2012/13.
16. The plan currently shows a total of 28 audit projects. This will be amended using a risk based approach and after further discussion with Heads of Service, will be reduced to 24 projects to reflect the available auditor resources.
17. The Plan has been prepared on a risk basis. This has involved scoring each of the potential audit subjects in terms of materiality, inherent risk and control risk, taking into account changes to systems, revised management arrangements, and past history.
18. The actual time spent on the audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place.

19. The resources available to Internal Audit consist of two full-time operational auditors, supported operationally by an Audit Manager for two days of the week, and strategically by the Head of Audit Partnership.
20. Each auditor is expected to complete twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.
21. The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits.
22. The majority of the time of the Ashford auditors is spent on Ashford audit projects; however they also work on other partnership sites where it is efficient to do so. This is reciprocated on a quid-pro-quo basis.
23. The Internal Audit Plan for Ashford is sovereign. However, where possible it has been aligned with the Audit Plans for Maidstone, Swale and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
24. The plan sets out the audit work that will be carried out in relation to the key financial systems; Benefits, Council Tax, NNDR, General Ledger, Creditor Payment, Debts Receivable and Payroll. The financial materiality of these systems and the expectations of the external auditors dictate that these systems are reviewed annually.
25. The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually or biennially or triennially depending on their risk profile.

Reporting the work

26. A written report is provided to the respective Head of Service on completion of each audit project. The Internal Audit report sets out the findings, conclusions and recommendations arising from the audit. A copy of every report is provided to the Deputy Chief Executive (Section 151 Officer) and the Chief Executive.
27. Heads of Service are required to complete an action plan setting out how they will address the recommendations. The action plan is assessed for adequacy by the Audit Manager.
28. A follow-up is carried out approximately six months after the original report was issued to establish whether the proposed action has been implemented in practice. The results of the follow-up are reported in writing to the respective Head of Service, with copies to the Deputy Chief Executive and the Chief Executive.
29. If the report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately to the original audit report or if it is found that the agreed action has not been taken at the time of the follow-up, the matter will be reported to the next meeting of the Audit Committee. The

Head of Service will be invited to attend the meeting to explain the action that will be taken to address the control weaknesses.

30. The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year; this is reported to the Committee in December. The Annual Internal Audit report shows the work for the complete financial year and is reported to the Committee in May/June to support the findings within the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the adequacy of the Council's control environment.

Risk Assessment

31. The Internal Audit operational plan sets out a series of projects for 2012/13 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

Equalities Impact Assessment

32. None

Other Options Considered

33. There is a requirement under the Code of Practice that the Head of Internal Audit should prepare a risk-based plan to implement the audit strategy. There are no alternative options.

Consultation

34. The Strategic Plan, from which the operational plan is drawn, was provided to Management Team and to the meeting of the Audit Committee in September 2011.
35. There is an ongoing process of dialogue with Heads of Service in relation to Internal Audit work including meetings between the Audit Manager and the respective Head of Service to discuss the plan of audit work relative to their area of responsibility. These discussions will inevitably lead to amendments to the plan.
36. Before any actual audit work commences, the respective Head of Service is consulted on the timing, scope and objectives of the audit project.

Implications Assessment

37. The Internal Audit plan has been prepared to take account of the corporate plan priorities, together with the systems in place to deliver the priorities and manage the risks to their delivery.

Handling

38. The operational plan will provide the majority of the work of the Internal Audit Team over the forthcoming financial year. The auditors will be allocated audit projects in line with the agreed plan

Conclusion

39. The Accounts and Audit regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the proper practices in relation to internal control'.
40. The Head of Audit Partnership is satisfied that completion of the attached operational audit plan for 2012/13 will meet the statutory duty and will allow the risks to the achievement of the Council's operational and strategic objectives to be reviewed.

Portfolio Holder's Views

41.

42.

Contact: Brian Parsons 01233 330442

Email: Brian.Parsons@ashford.gov.uk

DRAFT INTERNAL AUDIT PLAN 2012/2013

	SUBJECT	SERVICE AREA	COMMENTS
1	YOUTH & LEISURE DEVELOPMENT	CULTURAL & PROJECT SERVICES	System Review
2	PARKS & OPEN SPACES – GM CONTRACT	CULTURAL & PROJECT SERVICES	Contract System Review
3	PLANNING & DEVELOPMENT FEES	PLANNING & DEVELOPMENT	Financial/Income System
4	SECTION 106 AGREEMENTS/COMMUNITY INFRASTRUCTURE LEVY	PLANNING & DEVELOPMENT	Financial/Income System
5	LICENCING	ENVIRONMENTAL SERVICES	System Review
6	CAR PARK INCOME/PERMITS/CASH	ENVIRONMENTAL SERVICES	Income System Review
7	ENVIRONMENTAL PROTECTION	ENVIRONMENTAL SERVICES	System Review
8	CCTV MONITORING /TELECAN	ENVIRONMENTAL SERVICES	System/Compliance Review
9	ELECTIONS	LEGAL & DEMOCRATIC SERVICES	System/Compliance Review
10	MEMBERS ALLOWANCES & EXPENSES	LEGAL & DEMOCRATIC SERVICES	Financial/Compliance System Review.
11	NNDR	FINANCE	Financial System Review
12	HOUSING BENEFITS	FINANCE	Financial System Review
13	COUNCIL TAX	FINANCE	Financial System Review
14	DEBTORS	FINANCE	Financial System Review
15	CREDITORS	FINANCE	Financial System Review
16	GENERAL LEDGER	FINANCE	Financial System Review
17	PAYROLL	FINANCE	Financial System Review
18	CONTRACT PROCEDURE RULES/PROCUREMENT	CORPORATE/ FINANCIAL/ LEGAL	Compliance Review
19	BANKING ARRANGEMENTS	FINANCE	Financial Review

DRAFT INTERNAL AUDIT PLAN 2012/2013

20	MILEAGE/EXPENSE CLAIMS	PERSONNEL AND DEVELOPMENT	Financial/Compliance Review
21	NFI	FINANCE/ SECTION 151	The biennial Audit Commission data matching exercise Internal Audit required to facilitate/oversee the initiative - Fraud Review
22	ALLOCATIONS/WAITING LISTS	CUSTOMER HOMES & PROPERTY	Systems review
23	PFI	CUSTOMER HOMES & PROPERTY	Financial System Review
24	RENT ACCOUNTING	CUSTOMER HOMES & PROPERTY	Financial System Review
25	DEPOSIT LOANS/BONDS	CUSTOMER HOMES & PROPERTY	System review
26	ICT (topic to be agreed)	ICT & CUSTOMER SERVICES	ICT review
27	PROJECT MANAGEMENT	CORPORATE	System/Compliance Review
28	GREENOV INITIATIVE	PLANNING & DEVELOPMENT	Financial checks – Including audit and sign-off of funding claims

Report To: Audit Committee

Date: 6 March 2012

Report Title: Principles of good partnership governance

Report Author: Deputy Chief Executive (following consultation with an Audit Committee task and finish group)

Summary: This report follows work by a small task and finish group of the committee that has constructed a set of new partnership governance principles recommended as a framework to review the governance arrangements for significant partnership arrangements involving the council. The purpose is to ensure these arrangements are sufficient and in the council's and the public's interests. It proposes a review of existing arrangements and that the committee considers the outcomes later in the year.

Key Decision: Not applicable to this committee

Affected Wards: None specifically

Recommendations: **That the Audit Committee be asked to agree:**

- i. the recommendations from its 'task and finish group' for a new partnership governance framework**
- ii. that cabinet be consulted at its meeting on 12 April**
- iii. that the Deputy Chief Executive has delegated authority in consultation with the Chairman and Vice Chairman of this committee, and the Head of Audit Partnership to agree any changes to the framework following cabinet's consideration prior to reporting this committee's recommendation to the full council on 19 April**
- iv. subject to the above, that the relevant lead members and officers for the arrangements listed in Annex B be asked to complete a review against the framework for reporting back to this committee in September.**

Policy overview:	This report addresses a significant governance issue raised in the 2010-2011 Annual Governance Statement approved by this committee on behalf of the council. It is designed to ensure that arrangements for accountability, decision-making, and the transparency of significant partnership work, are appropriate, proportionate and understood.
Financial implications:	None
Risk assessment:	The framework is designed to safeguard the council's interests in its partnership through the design of good governance and accountability arrangements.
Equalities impact assessment:	Not applicable
Other material implications:	None
Background papers:	2010-2011 Annual Governance Statement, <i>June 2011</i> Report to the Audit Committee - 'Annual Governance Statement, Progress on Remedying exceptions', <i>September 2011</i>
Contact:	paul.naylor@ashford.gov.uk 01233 330436

Report Title: Principles of Good Partnership Governance

Purpose of the report

1. This report brings forward the recommendations of a task and finish group of the Audit Committee (Councillors Link, Marriott and Smith, with the Deputy Chief Executive and Policy and Performance Manager advising) held on 20 December 2011 in response to: a recommendation in the 2010/2011 Annual Governance Statement to review partnership governance arrangements; the changing landscape for partnerships relating to the Localism Act; and the now outdated partnership governance framework (approved by Executive 25 September 2008).

Issue to be decided

2. The committee is being asked to consider the task and finish group's recommendations for the principles of good partnership governance and agree this framework being the subject of consultation with the cabinet before recommending the framework to the full council in April.

Background

3. In 2009 the external auditor (the Audit Commission) as part of that year's Annual Audit Letter, made recommendations that the council should review arrangements whereby members of the council may be satisfied about the effectiveness and success of its partnership work. A similar recommendation was made later in 2010 by the Head of the (internal) Audit Partnership following one of its reviews. As a result the 2010-2011 Annual Governance Statement, approved by this committee on behalf of the council, adopted a review of partnership governance principles as a significant governance issue for attention by this committee.
4. At this committee's meeting last September members received a short report containing an initial draft of suggested partnership governance principles as the basis for working up a new and short framework. The committee agreed that a task and finish group made up of three members of the committee should meet with officers to shape a final draft for recommendation to the committee.
5. The sub-group met in December and its recommendations form the basis for this report.

A new partnership governance framework

6. The recommended framework is concise and focuses on key principles. Deliberately it does not define structures, or recommend any precise means of governance working, but concentrates on principles that as a public body involved in partnership working the council is advised to follow. It is a framework, therefore, for the council and its relevant partners to use to test existing and where appropriate design new arrangements that secure good

levels of governance and accountability, but are proportionate to the particular purpose and form of a partnership. Proportionality and, hence, design of arrangements will need to take account of the extent of, profile, standing, and public interest in a particular partnership and its activity.

7. In Annex A is a table containing a number of current and more significant partnership working arrangements. This is not to be viewed as an exhaustive list, as inevitably new partnerships will emerge both as implementation of the coalition government's legislative programme proceeds, and as the council moves forward with its localism work. Nevertheless, it is recommended, subject to the adoption of the framework, that lead officers and members review current arrangements and provide feedback to this committee about how existing arrangements compare and to inform this committee of any adjustments needed to align with the framework where considered proportionate and appropriate.

Definition of a partnership

8. This framework adopts the generally held definition of a 'partnership'. This is:

"A delivery arrangement, sometimes by a legal agreement though often not (the type of partnership and its responsibilities will dictate the need for formal status) involving the council and one or more otherwise independent parties that have:

- a) *agreed to cooperate in pursuit of a common purpose and outcomes*
- b) *created an organisational structure or process specifically for this purpose*
- c) *created or have the aim to create a jointly agreed programme of work*
- d) *agreed to share information, effort, resources and possibly risks and rewards"*

9. Outside its scope are independent arrangements which are already regulated; for example operational trusts and charitable companies, though the council may have representation on and interests in these types of arrangements. This is because these arrangements will be bound by their own governance arrangements, often regulated by legal requirements. The issue here, however, is to consider the extent of accountability and reporting to the council so the council's and public's interest in these arrangements are reflected.

10. Also outside of the scope are the many interests the council has through the various appointments it makes on a wide range of outside bodies (for example, school governorships, advisory groups, voluntary organisations, and management committees) where the primary purpose of the organisation or body is in the pursuit of its own independent aims. The council's role here is to represent the public interest and although there will be a common purpose, generally this is enshrined in the purpose of the independent organisation and not the result of specific agreement with the council. Advisory groups also include the many pan-Kent officer groups that act as service and professional

networks to support councils' work; again it is not intended that these groups should fall within the scope of this framework.

Governance Principles

11. For significant partnerships, either which the council establishes or takes part in, the framework covers nine basic principles that each partnership would be recommended to adhere to. These are set out in Annex A.
12. The application of these principles to key partnerships (see Annex B) is so this council and the community it represents may have confidence in the probity, efficiency and effectiveness of the arrangements; that there is appropriate transparency; and above all, that each partnership is fit to deliver its desired outcomes.
13. These basic principles are designed to ensure that:
 - the council establishes or participates in partnership arrangements which reflect the council's priorities and resources
 - the council is acting legitimately and in the public interest at all times
 - governance arrangements are proportionate and appropriate to individual partnership circumstances.

Initial Review

14. Once adopted it is recommended that lead members and officers undertake a short review of the current governance arrangements against the framework within four months for report back to this committee by September 2012. This should enable the committee then to decide whether there is a need for any further work or whether at that time the committee may recommend to the council the committee is satisfied the matter is satisfactorily completed. On the assumption it is the latter the responsibility for ongoing maintenance of governance arrangements would rest with the partnership concerned; these may then be subject to audit review from time-to-time.

Handling

15. It is suggested that before this committee's recommendations are considered by the full council in April (the Audit Committee ordinarily reports direct to the council) the cabinet is asked to consider the proposed framework and initial review at its meeting on 12 April.
16. Further it is suggested that delegation be given to the Deputy Chief Executive in consultation with the Chairman and Vice Chairman of this committee and the Head of the Audit Partnership to agree any changes to the framework following consultation with the cabinet prior to reporting the matter to full council on 19 April.

Contact: paul.naylor@ashford.gov.uk
01233 330436

Principles of Good Partnership Governance

	Principle	Good Practice	Features
1	Shared purpose & direction	A stated common purpose prioritised above individual organisational interests and expressed in terms of reference, partnership or legal agreement as appropriate and proportionate.	<p>Are purpose and outcomes agreed by partners and clearly stated in Terms of Reference?</p> <p>Can new partners be accommodated?</p>
2	Focus on delivery with shared ownership & control	<p>Clearly stated outcomes and results; clear measures of success, and a focus on measuring and managing performance.</p> <p>Agreed areas of responsibility and lines of reporting within the partnership and from the partner representatives to their principal body; terms of engagement allowing contribution and challenge; declarations of interest stated and any conflicts understood and managed.</p>	<p>Is there an agreed set of priorities? How will partners understand whether outcomes meet desired objectives?</p> <p>Is there agreement on how decisions are taken and formally approved within the partnership and by partners' principal bodies?</p> <p>Are areas of decision-making by the partnership that do not require approval of the principal bodies clearly defined?</p> <p>Is it clear whether the council representative(s) has/have any executive decision-making authority (meaning over the allocation of resources, or policy or significant operational arrangement) without formal recourse back to the council and if so is the scope defined?</p>

3	Reciprocal accountability and minimal bureaucracy	<p>A stated lead member and officer; agreed arrangements for reporting back to the council on partnership progress and performance.</p> <p>Streamlined administration; harmonising/relaxing rules and regulations where possible in order to deliver</p>	<p>Is there facility for an annual report or some other report of progress?</p> <p>Are processes codified and proportionate to the needs of the partnership?</p>
4	Sustained commitment	Stability and continuity of attendance	<p>Is there to be consistent attendance at the right level?</p> <p>Does the partnership have an arrangement that triggers a review if its actions stall for any reason, or the context in which it is working materially changes?</p>
5	Tracking performance	Understanding and highlighting obstacles to delivery; ability to assess and explain partnership's performance	Performance management arrangement that provides evidence to the partners and their principal bodies the partnership is achieving the desired objectives and outcomes.
6	Cost-effectiveness	Commitment to pooled budgets; integrated teams where appropriate; reducing duplication; stopping decisions that pass pressures to partners; facility to mobilise additional support	<p>Have resource / budget contributions been made as required?</p> <p>Is the resource commitment proportionate to the desired outcome?</p>
7	Innovation and versatility, and risk management	Positive, constructive approach to risk management allowing innovation; willingness to adapt quickly to changed circumstances	<p>Is there commitment to problem solving?</p> <p>Is there a proportionate approach to risk awareness and management?</p>

8	Effective communications	Clear routes for public consultation and participation; timely and transparent information sharing within and with partners' principal bodies; respect for the perspectives and resources of partners	<p>Are processes, procedures and information transparent enough for the partners and their principal bodies?</p> <p>For example, are agendas and minutes available to all members of the council?</p> <p>Is the necessary information provided in the public interest?</p> <p>Are there arrangements to deal with access to and freedom of information requirements?</p>
9	Exit strategy	Agreed arrangements for ending the partnership either when its objectives are fully met or the context changes significantly; arrangements to allow for a partner to withdraw	<p>Exit arrangements should be stated and in appropriate cases feature as part of the formal constitution.</p> <p>Are the terms and conditions for partner withdrawal stated?</p>

Ashford Borough Council – relevant partnership arrangements (currently)

	Partnership	Lead Member/Officer
1	Ashford Locality Board	Cllr Wood/Chief Executive
2	Kent Forum	
3	South East Enterprise Partnership (LEP)	
4	East Kent Regeneration Partnership	
5	Local Children's Trust	Cllr Dyer/Cultural Projects Manager
6	Ashford Town Centre Partnership	Cllr Heyes/Chief Executive
7.	Visit Kent	
8.	Kent Housing Group	Cllr Hicks/Head of Customers, Homes and Property
9	Joint Policy Planning Board (Housing)	
10.	Choice Based Lettings Partnership	
11.	KCC Supporting People Commissioning Body	
12.	Kent Waste Partnership	Cllr Blanford/Head of Environmental Services
13.	Community Safety Partnership	Cllr Claughton/Head of Environmental Services
14.	Mid Kent Audit Partnership	Cllr Taylor/Deputy Chief Executive
15.	Ashford Clinical Commissioning Group	Cllr Claughton/Environmental Health Manager

Audit Committee - Future Meetings

Date 06/06/2012			
Publish by 25/05/12			
Reports to Management Team by 24th May		Council 19/07/12	
1	Minimal/Limited Audits	BP	
2	Arrangements for Fighting Fraud	BP/JF	
3	Draft Strategic Risk Register	BP	
4	Internal Audit Annual Report 2011/12	BP	
5	Annual Review of the Effectiveness of the Systems of Internal Audit	BP	
6	Approval of Annual Governance Statement	PN	
7	Corporate Performance Report (April 2012)	NC	
8	Report Tracker for Future Meetings	DS	

Date 25/06/2012			
Publish by 15/06/12			
Reports to Management Team by 14th 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	Corporate Performance Report	NC	
5	Annual Audit Fee Letter 2011/12	AComm (cover by PN)	
6	Compliance with International Standards for Auditing – Letter of Assurance	AComm (cover by BP)	
7	Report Tracker for Future Meetings	DS	

Date 18/09/2012			
Publish by 10/09/12			
Reports to Management Team by 6th September		Council 18/10/12	
1	Minimal/Limited Audits	BP	
2	Statement of Accounts 2011/12 and the District Auditor's Annual Governance Report	AComm (cover by PN/BL)	
3	Internal Audit Strategic Plan	BP	
4	Annual Governance Statement – Progress on Remedying Exceptions	PN	
5	Corporate Performance Report (July 2012)	NC	
6	Report Tracker for Future Meetings	DS	

Date 4/12/2012			
Publish by 26/11/12			
Reports to Management Team by 22nd November		Council 13/12/12	
1	Minimal/Limited Audits	BP	
2	Annual Governance Statement – Progress on Remedying Exceptions	PN	
3	Corporate Performance Report	NC	
4	Annual Audit Letter 2011/12	AComm (cover by PN)	
5	Corporate Performance Report (October 2012)	NC	
6	Report Tracker & Future Meetings	DS	

Date 05/03/2012			
Publish by 25/02/12			
Reports to Management Team by 28th February		Council 18/04/13	
1	Audit Commission's Proposed Audit Plan for the 2012/2013 Audit	AComm	
2	Certification of Grant Claims – Annual Report	AComm	
3	Presentation of Financial Statements	MN	
4	Annual Governance Statement – Progress on Remedying Exceptions	PN	
5	Internal Audit Operational Plan 2013/14	BP	
6	Report Tracker for Future Meetings	DS	

27/2/2012