



Notice of a meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane,
Ashford, Kent TN23 1PL on Monday 25th June 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

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Nos.

1. **Apologies/Substitutes** – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)
2. **Declarations of Interest** - Declarations of Interest under the Code of Conduct adopted by the Council on the 24th May 2007 relating to items on this agenda should be made here. The nature as well as the existence of any such interest must also be declared
3. **Minutes** – To approve the Minutes of the Meeting of this Committee held on the 6th March 2012

Part I – For Decision

4. Fraud Annual Report 2011/12
5. Strategic Risk Register
6. Annual Report of the Audit Committee 2011/12
7. Internal Audit Annual Report 2011/12
8. Approval of Annual Governance Statement

Part II – Monitoring/Information Items

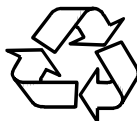
9. External Auditor's Update
10. Annual Audit Fee Letter 2012/13 (to follow)
11. Compliance with International Standards for Auditing – Letter of Assurance

12. Report Tracker and Future Meetings

DS/VS

18th June 2012

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Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **6th March 2012**

Present:

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

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

Apologies:

Cllrs. Michael, Wood.

Also Present:

Head of Internal Audit Partnership, Finance Manager, Corporate Business Change & Efficiency Manager, Principal Accountant, Policy & Performance Officer, Senior Member Services & Scrutiny Support Officer.

Lynn Clayton, Daniel Woodcock – Audit Commission.

353 Minutes

The Head of Internal Audit Partnership updated Members on the current position with risk management and the development of a new Strategic Risk Register for the Council. A session had been held with Officers and Members along with a Risk Consultant which had generated some initial thoughts. These would be discussed at a risk workshop scheduled for this coming Friday with the intention of drawing up the first draft version of a Strategic Risk Register and bringing that to this Committee in June 2012. It was agreed that Officers would attempt to produce a draft register as soon after the workshop as possible and circulate that to Committee Members.

In accordance with Procedure Rule 9.3 Mr Relf, a local resident spoke on the Minutes of the last Meeting. He said that at that meeting Mrs Clayton of the Audit Commission had asserted that there had been no internal or procurement fraud at Ashford Borough Council and he asked on what evidence that assertion was made? Also, at that meeting a figure of £147,000 had also been given for housing and benefit fraud and he asked how that figure had been reached, given that the National Fraud Initiative findings indicated a high percentage of fraud in this Borough. Mrs Clayton explained that the information had come from a survey completed by Local Authorities so the data had been provided by the Council itself. With regard to the figure of £147,000 housing and benefit fraud, the Finance Manager explained that this was the correct figure in terms of fraud that had been the subject of sanction or prosecution but did not include suspected fraud or fraud that had not resulted in sanction.

The Chairman said that due to the difficulties with the definition, and although the figures were quite modest in relation to the total number of benefits the Council paid out, he would like a clear update on the fraud situation as part of the report on fighting fraud that was coming to the next meeting. A Member asked if that report could also provide some benchmarking with other Councils in terms of spend on fighting fraud and how much money that generated back for the Council compared to other Authorities.

Resolved:

That the Minutes of the Meeting of this Committee held on the 6th December 2011 be approved and confirmed as a correct record.

354 Reports of External Auditor (Audit Commission)

(a) Certification of Grant Claims – Annual Report

Mrs Clayton introduced the report which summarised the outcome of certification work on claims for grants and subsidies and information in financial returns for the year 2010/11. Overall, there had been a low number of errors compared to other Authorities and there were two recommendations agreed for implementation. The report also outlined the fees arising from the certification work.

(b) Audit Commission's Proposed Audit Plan for the 2011/12 Audit

Mr Woodcock introduced this part of the report which set out the work for the 2011/12 audit in terms of the financial statements and value for money. Two significant risks had been identified in terms of the financial statements, which were Housing Property and HRA Reform. In terms of value for money there was a risk around Business Planning. The proposed fee for the audit was £132,525 which represented a 5% reduction on the audit fee for 2010/11. In response to questions about specific actions that the Council could take to reduce its audit fee, the Finance Manager explained that these surrounded providing clear and robust financial statements as well as ensuring accurate and up to date information was provided by Housing. Over the last couple of years there had been a steady improvement in the presentation of accounts and this had been recognised by the External Auditors as it had had a positive impact on the level of work they had needed to undertake. There had been some systems problems last year which had resulted in problems in providing information from Housing, but they were hopeful they had been addressed ahead of this year. The Chairman said that as a Committee they would expect the Finance Section to continue to work as hard as they had been to keep the audit fee down to a minimum.

(c) Audit Commission – General Progress Report

Mrs Clayton directed the Committee's attention to the assurances that were needed from Members for the 2011/12 audit opinion work. It was agreed that Members would feed any comments to the Chairman so there could be one collated response from the Committee. In terms of the Council's future External Audit Service, Mrs Clayton announced that Grant Thornton (UK) LLP had been awarded the contract for

the London (South), Surrey and Kent region for a five year period from 2012/13 to 2016/17. Therefore Grant Thornton would be Ashford Borough Council's new appointed External Auditor from September 2012. They would be holding a workshop during the summer to meet all of the audited bodies, but it was considered that they should be formally invited to an Audit Committee meeting (perhaps in September) to introduce themselves ahead of taking over. The Chairman considered that the way the contracts had been awarded was not in the spirit of Localism as each Council should have been given the opportunity to choose their own preferred External Auditor. He asked the Head of Internal Audit Partnership to investigate if there was any appetite amongst the four MKIP Authorities to write a letter on those terms to the Government Office who had made that decision.

Resolved:

That the three reports from the External Auditor be received and noted.

355 Presentation of Financial Statements

In accordance with Procedure Rule 9.3 Mr Relf, a local resident spoke on this item. He quoted the figure from the report of approximately £5.9m for current debt and said this did not agree with the Deputy Leader's statement at the last Council Meeting when Council Tax was frozen that there was 'no debt'. He asked why this debt was associated with the Housing Revenue Account and sought an assurance that all Members were aware of the £125m debt that would be taken on to buy the Council out of the current HRA subsidy system? The Chairman said he was comfortable confirming that Councillors were aware of the debt that would be incurred by the HRA buy out. A report had been submitted to the December Cabinet explaining this to Members in some detail. The Finance Manager explained that the £5.9m figure was debt on the Housing Revenue Account, but there was no General Fund debt and it was this that the Deputy Leader had been talking about at the February Council Meeting.

The Chairman asked about the mechanics of taking out the loans associated with the HRA buy out and the transactions that were involved. Was there any risk that the bank may hold up the payment, being such a large amount, which could result in charges being incurred? The Finance Manager explained there was a slight risk, but the bank had been kept fully informed of developments and was expecting that deposit on that date. The Public Works Loan Board had also given assurances that the money would be in the Council's bank account at opening time on that date and the Council would be able to monitor that and trigger the payment out. There would be further discussions with the Council's Treasury Advisors, Arlingclose in preparation for the loan process and the Finance Manager endeavoured to involve the Chairman in those discussions. Arlingclose were completely independent with no links to banks or financial institutions and they would be giving advice and keeping an eye on the Council's portfolio right up to the transaction date.

With regard to heritage assets, the Chairman asked if it was sensible to use the insurance value, given that these were notoriously very different. The Finance Manager explained that where an actual value could be sensibly obtained that would be used, but in instances where this was impossible or simply not cost effective, they

had been advised to use insurance values and disclose that properly within the accounts. A reasonable estimate such as this was acceptable.

Resolved:

That the Committee note the report and the draft accounting policy for Heritage Assets as contained at Appendix A of the report.

356 Internal Audit Operational Plan 2012/13

The Head of Internal Audit Partnership introduced his report which set out the one-year Internal Audit operational plan and asked the Committee to note the contents of that plan. It was an extract of the three year plan that had been approved by the Committee in September 2011 and the appendix to the report gave the broad headings of the subjects to be audited. These would be discussed in more detail with the individual Heads of Service. The plan currently showed a total of 28 audit projects, but this would be reduced to 24 using a risk based approach and further discussion with Heads of Service, to reflect the available auditor resources. The four areas which dropped off would be added into the following year's plan and the Committee would be informed of those.

The Chairman asked if an audit of the remaining 'leftovers' and liabilities of Ashford's Future could be factored somewhere into the plan for the coming year. The Head of Internal Audit Partnership said he would discuss the matter with the Section 151 Officer. Management Team has already considered the plan and this had not been raised, but the areas were not 'set in stone'. The Finance Manager advised that he had been delegated the Section 151 Officer duties regarding Ashford's Future because of the Deputy Chief Executive's role as Company Secretary.

In terms of the working arrangements within the Mid Kent Internal Audit Partnership, the Head of Internal Audit Partnership advised that each of the Councils had their own small on-site team, but staff did work across the four Authorities where possible and he was looking to do more of this in the future.

A Member asked if the proposed areas to be audited should be reconciled with the Strategic Risk Register when it was produced. He understood the Operational Plan and the Risk Register were two separate exercises but considered there had to be some overlap. He also wondered if there should be more examination of processes rather than systems within the audits. The Head of Internal Audit Partnership said that it was a question of terminology. They tended to refer to 'systems' but it was certainly the processes that were audited as they were the elements that were operated by individuals and where there was a need for a control. He agreed that when the Strategic Risk Register had been completed he would again look at the Audit Plan to consider whether anything had been missed.

Resolved:

That the contents of the one-year Operational Internal Audit Plan be noted.

357 Principles of Good Partnership Governance

The report followed work by a small task and finish group of the Committee that had 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 was to ensure those arrangements were sufficient and in the Council's and the public's interests. It proposed a review of existing arrangements and that the Committee considered the outcomes later in the year.

A Member said that during the deliberations of the task and finish group he had had some concerns about the way Members were appointed to certain outside bodies and partnerships. If they were not briefed properly beforehand or did not understand why they were at the meetings, they may 'fall in to the trap' of making erroneous comments and that could reflect badly on the Council. They may even promise things on behalf of the Council without having proper authority. Another Member said he agreed and made a wider point about feeling that the induction process for newly elected Councillors had been lacking and had left him feeling particularly unprepared for certain meetings and what he was supposed to be doing as a Councillor. The Chairman said that although outside the scope of this review, the point about outside bodies was touched upon within the report.

In terms of the principles of good partnership governance annexed to the report, it was agreed to strengthen: - Principle 2 in terms of authorising Council representatives to make decisions; Principle 8 with regard to effective communications and making an announcement at the outset of a partnership; and Principle 9 regarding exit strategies.

Resolved:

- That**
- (i) subject to the comments above, the recommendations from the Committee's 'task and finish group' for a new partnership governance framework be agreed.**
 - (ii) Cabinet be consulted at its Meeting on the 12th April 2012.**
 - (iii) the Deputy Chief Executive be delegated authority in consultation with the Chairman and Vice-Chairman of this Committee, and the Head of Internal 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 19th April 2012.**
 - (iv) subject to the above, the relevant lead Members and Officers for the arrangements listed in Annex B to the report be asked to complete a review against the framework for reporting back to this Committee in September 2012.**

358 Annual Governance Statement – Progress on Remediating Exceptions

The two areas for further work included in the Annual Governance Statement agreed by the Committee in June 2011 were: - a need for a review of the Council's risk management approach; and the need to review principles relating to partnership governance. Both of those matters had been addressed as part of previous agenda items at this meeting.

Resolved:

That the progress to date on remediating the exceptions identified in the 2011 Annual Governance Statement be noted.

359 Report Tracker and Future Meetings

It was noted that the September 2012 Meeting of the Committee would now take place on Thursday 27th September. The Tracker would need to be updated to reflect some of the decisions taken at the Meeting.

Resolved:

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

Agenda Item No: 4
Report To: **AUDIT COMMITTEE**
Date: **25th June 2012**
Report Title: **Fraud Annual Report 2011/12**
Report Author: **Investigation and Visiting Manager**



Summary: This report provides an update to the work of the Fraud and Visiting Team, sets out a summary of the Team's work for the financial year 2011/12 and the team's future priorities.

An extremely productive year for the small resourced team (majority of the financial year with only 1 Investigator) that has generated results in a number of areas, in particular Tenancy Fraud where the team have been applauded for its successes by the Audit Commission.

A year that created over £170,000 of overpayments due to fraudulent benefit claims but also a year that produced increased income from recovery of overpayments.

Proactive work undertaken on investigating Council Tax discounts and exemptions has resulted in proven outcomes and generated further Council Tax income. The zero tolerance to fraud message has further been conveyed to Ashford Borough residents.

Fraud Awareness to high risk areas to ensure prevention is maximised to create an anti-fraud culture and reduce the impact on the Council.

Continual review of the service reflecting the future changes and impacts ahead with Single Fraud Investigation Service (SFIS), a new Council Tax Discount scheme, changes to National Non-Domestic Rates (NNDR) and Universal Credits in the coming year leads to further discussions with the Audit team on joint fraud issues reflecting all areas for the Council.

Key Decision: No

Affected Wards: Not applicable

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

Policy Overview: Not applicable

Financial None

Implications:

Risk Assessment The Fraud and Visiting Team's role includes the prevention and detection of fraud within Council Tax, Benefits and Housing and therefore it contributes to the overall risk management environment through the work it undertakes.

Equalities Impact Assessment None

Other Material Implications: None

Exemption Clauses: None

Background Papers:

- a. Protection of Freedoms Bill – Royal Assent 01/05/12
<http://www.publications.parliament.uk/pa/bills/cbill/2010-2011/0146/20111146.pdf>
- b. OSC inspection report 02/08/2011 – available on request
- c. Protecting the Public Purse 2011 - <http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/20111110-ppp-2011.pdf>
- d. Tenancy Fraud – DCLG consultation document
<http://www.communities.gov.uk/documents/housing/pdf/2064044.pdf>
- e. Fighting Fraud Locally, Local Government Fraud Strategy – www.fightingfraudlocally.co.uk/

Contacts: Joanne.fox@ashford.gov.uk – Tel: (01233 330449)

Report Title: Fraud Annual Report 2011/12

Purpose of the Report

1. To keep Members updated on the role of the Fraud and Visiting Team and the officers who make up the team.
2. To provide a summary of the work and activities of the Team for the Financial Year 2011/12.
3. To advise of the proposed future areas of work for the Team for the Financial Year 2012/13.

Issue to be Decided

4. Members to note the report

Background

5. This report is the 3rd annual report of its kind to the Audit Committee relating to the work of the Fraud and Visiting Team.
6. The primary role of the team is the prevention and detection of fraud within Council Tax, NNDR, Tenancies and Housing & Council Tax Benefits. It is appropriate that the Audit Committee, under its Terms of Reference, is aware of both the role and work of this team.
7. Ashford Borough Council has nearly 50,000 Council Tax properties, including 5,000 Council owned houses, and just under 4,000 Non-Domestic properties. We pay out over £30 million of Council tax and housing benefits on over 10,000 claims (the highest level for some time).

The Fraud and Visiting Team

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

Investigation and Visiting Manager

2 x Investigation Officers

(1 vacant post from Feb 2011 through to March 2012)

(1 on Maternity Leave from May 2012, with a temporary post agreed to cover from mid June)

2 x Generic Visiting Officers

1 x Support Officer

Working in Partnership

9. The Team works closely in partnership with a number of departments within Ashford Borough Council and other outside agencies, including close working relationships with relevant government agencies. A growing area of partnership working is with the Housing service, not just working closely now on prevention and detection of Tenancy Fraud cases, but working together on

a more routine basis. This includes interviewing and visiting jointly to ensure all cases are dealt with from a criminal and civil perspective at the same time, providing efficiency and effectiveness. This allows the Council's housing stock to be accessed and used by those who really need it. This holistic approach ensures the investigation covers all angles and encompasses our customer duty as a Local Authority.

10. The investigation and interviewing skills within the team are used on a regular basis across other departments in the Council when required. In addition the Team has a good working relationship with the Department of Works and Pensions (DWP) which ensures that all investigations regarding Benefit Fraud are conducted jointly and where appropriate the correct sanction for the totality of the fraud is applied.
11. The Team works in conjunction with the Community Safety Unit, attending meetings, joining operations and sharing intelligence within the CSU meetings. This includes all areas regarding the prevention of crime and where intervention is required across the borough.

How Fraud is Detected and what was investigated in 2011/12

12. Referrals to the team are received from a number of sources. For the financial year 2011/12, 463 referrals were received from the following sources

Source	Number of Referrals
Anonymous	74
Benefits	54
Visits	23
Housing Benefit Matching Service	27
Department of Work & Pensions	55
Housing	37
Local Tax Team	20
Landlords	5
Customer Contact Centre	71
Hotline	31
Other Council Departments	1
Police	18
National Fraud Initiative	6
Other	41
Total	463

13. Of these:

- 159 Investigation files were raised.
- 91 were rejected and referred to the DWP.
- 57 were rejected and passed for a visit
- 156 were rejected, no further action

14. The Teams 'success' can be measured in a number of ways:
 1. Number of sanctions (cautions, administrative penalties or prosecutions) for Housing & Council Tax Benefit fraud cases.
 2. Council house tenancies cancelled and properties relet in cases of detected Tenancy Fraud

3. Fines under the Local Government Finance Act for Council Tax Frauds.
 4. Values of overpayment resulting from investigation and recovery of these monies.
 5. Successful outcomes:- following a preventative investigation where an award of benefit/discount is not given, or a case does not proceed to sanction but the fraudulent activity has been stopped.
15. Overpayment of benefit that is not caused by local authority error is of course recoverable and is also a very important area as it affects the level of subsidy the Council receives from Central Government. If a fraud is detected resulting in an overpayment then 60% of the amount subsequently recovered must be paid back to Central Government. The remaining 40% or part thereof is retained by the Council to assist with its costs. Increased resources in this area could prove to be highly financially viable for the Council to maximise income.
 16. A strong focus of the team is in preventing fraud, which cannot be specifically measured, but is a very important part of the Team's role. Generally the benefits application system places emphasis on minimising error and fraud from the outset with the various validation measures that must be performed before a claim enters the system. However, while a deterrent it cannot totally prevent fraudulent claims entering the system.
 17. Every fraud that is stopped from entering the system reduces the likelihood of an overpayment occurring and that would need to be recovered, a property being allocated that later needs recovering or a discount that needs removing and further collection of money is required. These outcomes are recorded within 'successful outcomes'. A lot of time has been spent in this area in 2011/12 and the staff involved have seen a change in culture within the organisation and have noted the message that has been given to our residents.
 18. Although the Council cannot publicise all its sanctions, those cases which go to court are highlighted publically through media statements and often published in the local press; this both raises the profile of the Team's work while sending out a deterrent message.
 19. All first hearings at court are presented by the Fraud Manager to maximise efficiency and reduce legal fees in this area. All investigation costs for cases are provided at court with a view to recover as much as practically possible from the defendant in the case.

2011/12 Results

No. of cautions administered	18
No. of Administrative Penalties administered	5
No. of successful prosecutions	3
Overpayments due to sanctioned cases	£64,592.16
Overpayments due to Investigated cases (£)	£172,820.94
Administrative Penalties Collected (£)	£1,745.84
Properties recovered	2
Applications for housing rejected	2
Council Tax fines	1
Successful Outcomes (only recorded from 01/10/11)	20

The results from the proactive joint working between the team and Housing have already resulted in two properties being recovered for 2012/13 and eight more tenancies are jointly under investigation with the housing service. One of the cases was a contested hearing for sub-letting at court and officers jointly investigated, interviewed and presented the case at court and successfully gained possession of a two bedroom property as a result.

Data Matching - National Fraud Initiative Exercise (NFI)

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

Data Matching - Housing Benefit Matching Service (HBMS)

23. The Housing Benefit Matching Service is a monthly data matching exercise provided by the Department of Works and Pensions (DWP) that matches Housing Benefit data with DWP benefit data to advise of changes to claims between the systems that may affect entitlement to Housing Benefit. These matches are now dealt with by the processing staff to ensure the claims are amended quickly. Any large anomalies are passed for further investigation.

Visiting

24. Due to the future changes ahead within the Welfare Reform Act, the role of the Visiting Officers is more focused on ensuring the Council Tax and National Non-Domestic Rate (NNDR) base is kept up to date. Up until April 2013 NNDR income is collected in its totality on behalf of Central Government. However from April 2013, 50% of this will be retained for distribution between the borough Council and the main precepting authorities as the main element of core general income. Hence, the collection risk also becomes more of a direct 'liability'. In the present climate this is a high risk area with the potential for customers to look at ways to avoid paying their liabilities, with an increased risk of a higher level of fraudulent claims for Council tax discounts and exemptions. Paying attention to this ensures that revenue is maximised to its full potential. Any claims that are made for exemptions/discounts fraudulently are investigated.

25. Following five successful years of joint working with the locally based Pension Service their focus has been changed by the DWP and they no longer visit pensioners. They are now part of the Department of Work & Pensions and their remit is to visit vulnerable people only. During the partnership we were fortunate to have three days a week of resources allocated to visiting. Pensioners within the Ashford Borough and included in these visits was part of the review of entitlement to Housing & Council Tax Benefit. The removal of this resource by the DWP has meant that there has been far less capacity to make visits to verify details held of benefit claims for pensioners in the last financial year.
26. To assist with front-end prevention we now have a computer based tool 'Risk Based Verification' in place. This tool risk assesses all claims made electronically and all those that are identified as high risk receive further intervention by way of credit checks and visits.

Fraud Awareness Training

27. The Fraud and Visiting Team provide annual fraud awareness training to Benefits Assessment staff, Council Tax staff, Customer Service Advisors and staff within Housing. The level of training ranges from general awareness training to in depth mock investigations and interviews.
28. At times there has been training provided to magistrates, members and managers. It is proposed for the future that all Managers received a half day training a year on the Fraud Risks to the Council. To ensure all areas of risk are covered this is to be provided with a joint approach from the Audit Team and the Fraud Team.

Record Retention Policy & Information Sharing

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

RIPA

30. RIPA (Regulation of Investigatory Powers Act) is used on cases where there is substantial circumstantial evidence suggesting a fraud causing a great loss to the public purse is occurring. Surveillance is evidence that is given greater credibility in court as it is real time evidence and supports the prosecution in its case when proving beyond reasonable doubt that the fraud has been committed. RIPA is an essential part of an Investigators tool kit, without which, many of our more professional fraudsters would remain undetected and unpunished. The cases where RIPA was necessary to uncover the facts are the larger frauds where all other options are not possible. It would have great impact on the public purse if these were not investigated, stopped and prosecuted. The Protection of Freedoms Bill 2012 received Royal Assent on 1st May 2012 and a small part of the Bill concerns changes to RIPA legislation for Local Authorities, this is that, applications must be signed off by a Magistrate. (Background Paper a). The OSC (Office of the Surveillance

Commissioners) will issue revised guidance when the Bill comes into force, date not yet known. Ashford BC is inspected by the OSC regularly and our last inspection was on 30th June 2011. A copy of the letter and report is attached, (confidential attachment).

Tenancy Fraud

31. As noted above the Investigation Team and the Housing Operations Team now work together routinely to carry out joint investigations of Council tenancies. Following continued support for further work in this area, time has been spent over the last year working on the foundations, changing the culture and training to ensure the way forward provides the right results for Ashford. Investigators and Housing Officers work alongside each other during investigations and the Managers from both areas meet regularly on decision making. The Audit Commission have advised that the cost of Tenancy Fraud can be calculated by either using the figure of £18,000 a year to keep a family in temporary accommodation or a figure of £150,000 for a new build property. There is a far greater saving from preventing and detecting Tenancy Fraud than there is for Housing & Council Tax Benefit Fraud. The Audit Commission's latest publication 'Protecting the Public Purse 2011' should be read as a background document and noted that the team's success in this area is quoted in this publication. (background paper c).
32. A consultation document on Tenancy Fraud was released by DCLG for all social housing providers and investigation teams to respond to (background paper d). A copy of the response compiled jointly by the Housing Operations Manager, the Housing portfolio holder and the Investigations Manager can be provided on request.

Other Fraud

33. During the year the team dealt with a timely and robust investigation into fraudulent activity by way of falsified postal vote applications by a potential candidate. The matter was investigated and a fully prepared file passed to the police. The candidate was arrested and interviewed regarding the matter. This is currently being dealt with by the Crown Prosecution Service.

What Next?

34. The government announced that from April 2013 there will be one Single Fraud Investigation Service (SFIS) to investigate all benefit fraud. This will comprise of Department of Work & Pensions, HMRC and all Local Authorities. Following consultation it was agreed that between April 2013 and March 2015 the Fraud staff would remain working and based at the local authority and funded in the same way through the administration grant. The full future details and impact of SFIS after March 2015 are still unknown. Some detail can be found with The Welfare Reform Act 2012. In a letter dated 21st March 2012 addressed to Chief Executives, the DWP stated the following:

In February 2012 the Department published a joint strategy with HMRC and the Cabinet Office 'Tackling fraud and Error in Government' outlining plans to tackle fraud and error in the tax credit and benefit system. As part of this strategy we are creating a single integrated fraud investigation service with statutory powers to investigate and sanction all benefit and tax credit offences. We are also piloting

a Mobile Regional Taskforce to concentrate on fraud in targeted, small, areas of the UK.

In November 2011 Lord Freud announced that local authority staff currently employed on welfare benefit investigation will become part of SFIS from 2013. These staff will remain employed by local authorities, but operate under SFIS powers, policies, and priorities.

Further detailed design work has been underway, collaboratively with HMRC, DWP and local authorities since November 2011 and a design discussion document will be circulated for informal consultation with stakeholders in April 2012

35. The last year has shown a change in culture and created working practices that have become second nature for cross departmental working. There is definitely more of a corporate view on investigations and enforcement for the future. A number of discussions for the future and working needs have led to the possibility of the Fraud and Audit Teams working closely together on Corporate Fraud exercises.
36. Audit and Fraud Teams from Ashford, Maidstone, Swale & Tunbridge Wells Councils met in February to discuss emerging Fraud issues. It was agreed that each authority would complete the Chartered Institute of Public Finance & Accountancy (CIPFA) 'Fraud Resilience Evaluation Diagnostic' (FRED1) before meeting again on 8th May. Having used this tool to assess the effectiveness of control systems, cumulative knowledge and emerging fraud risks it was agreed that each authority would develop this and use the information obtained to inform the continuous development of the fraud strategy and planning across the organisations. There may be further scope to work together to combat fraud. Some joint exercises on corporate fraud risks will be considered with Kent County Council.
37. Meetings have been set up in June and July with local social Housing Providers to discuss and explore the opportunities of working together on Tenancy Fraud within their stock.
38. All new areas of focus are in line with the National Fraud Authorities recent release 'Fighting Fraud Locally Strategy' (background paper e).

Risk Assessment

39. The work of the Fraud and Visiting Team is vital in the mitigation of risk from fraud and error. The high risk to significant sums paid by the Council in Benefit, the improper use of Council owned properties causing high costs in areas such as Bed & Breakfast and the access to skilled Investigators to ensure that all cases of suspected fraud are investigated swiftly and in line with legislation.

Other Options Considered

40. Not applicable

Conclusions

41. Due to the extent the ongoing changes it would be appropriate to report back in the Autumn, as opposed to leaving it until next year.

Portfolio Holder's Views

30. Not applicable

Agenda Item No: 5
Report To: Audit Committee
Date: 25 June 2012
Report Title: Strategic Risk Register
Report Author: Brian Parsons, Head of Audit Partnership



Summary: The report sets out the draft Strategic Risk Register for adoption by the Council.

The risks shown are 'pre-mitigation', in other words they represent the scenario that might occur should the risk not be managed. In practice, a number of controls are already in place to help to prevent the scenario occurring.

The risks have been allocated to 'risk owners' who are responsible for taking the necessary action to manage the risks. Management Action Plans are currently being completed and will be compiled to sit next to the Register.

Audit Committee is asked to endorse the Register and the process that is set out in the report for the ongoing management and reporting of the risks.

Key Decision: No

Affected Wards: N/A

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

- endorse the content of the draft Strategic Risk Register and the wording used to describe the risk
- endorse the ownership of the identified risks
- agree the process for monitoring and reporting action on the risk register
- agree the respective responsibilities for the risk management process.

Policy Overview: The Strategic Risk Register provides a means for monitoring the risks to the delivery of the Council's strategic objectives and for ensuring that appropriate action is taken to manage them.

Financial Implications: None directly

Risk Assessment Risk is the basis for the report

Equalities Impact No

Assessment

Other Material Implications: None

Background Papers: None

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

Report Title: Strategic Risk Register

Purpose of the Report

1. The report sets out the key strategic risks to the delivery of the Council's key objectives. The risks have been identified through a series of interviews with senior managers and Members and principally through a Strategic Risk Management workshop which took place on the 9 March 2012. The workshop provided an opportunity for attendees to identify and prioritise the Council's key strategic risks and to develop a robust Strategic Risk Register.
2. Management Team was provided with a copy of the report from the risk consultant who facilitated the risk workshop, on 17 May 2012. The Team was asked to consider the report and make any necessary amendments so that a draft Strategic Risk Register could be created and management action plans could be completed by the allocated 'risk owners'.
3. It was also necessary to define the roles and responsibilities for risk management and the process for reporting progress on the management of the risks.
4. The report to Audit Committee seeks the committee's endorsement of the Register and of the process for the ongoing management and reporting of action, to manage the risks.

Issue to be Decided

5. Audit Committee is asked to:
 - endorse the content of the draft Strategic Risk Register and the wording used to describe the risk
 - endorse the 'ownership' for the management of the individual risks
 - agree the process for monitoring and reporting action on the risk register
 - agree the respective responsibilities for the risk management process.

Background

6. The Head of Audit Partnership reported to the meeting of the Audit Committee on 28 September 2011, proposing an approach for taking risk management forward at Ashford. The proposal included the creation of a strategic risk register.
7. The report made it clear that there was very limited resource within the Audit Partnership for risk management activity and that the arrangements would need to be delivered in the spirit of the strategic objective to provide 'the best services resources allow'. Maximum use would need to be made of the risk allowance from the Council's insurers, Zurich.

8. The resource availability would have a direct affect on the speed at which risk management could be progressed within the Authority. However, this could be beneficial as it would allow risk management arrangements to be introduced over a period, with each stage becoming properly embedded before moving to the next stage.
9. The committee resolved that a small task group of Members be set up to examine the Council's current strategic risks and go through the items one by one to add a layer of monitoring. A report on the findings could then go up to Council via the next meeting of the full Audit Committee.
10. The task group, led by the Chairman of the Audit Committee agreed that there was a need to move quickly to create an up-to-date, comprehensive strategic risk register. This would involve a series of one-to-one meetings with senior management and members and a risk workshop which would include Management Team and representatives from Cabinet and from the Audit Committee.
11. The interviews and the risk workshop would be facilitated by Zurich Management Services, and would be funded by the allowance that the Council receives from Zurich under the terms of its insurance contract.
12. The task group's proposals were subsequently endorsed by the full Audit Committee and by a meeting of the Cabinet on 8 December 2011.
13. Meetings between the risk consultant and senior officers and members took place in February 2012 and the risk workshop was held on 9 March 2012.
14. The report from the risk consultant was provided to Management Team on 17 May 2012.

The draft Strategic Risk Register

15. It is vital that there is agreement that the key strategic risks have been identified within the draft register.
16. Following the agreement of the risks by Management Team, Audit Committee is asked to endorse the draft strategic risk register.
17. It is important to note that the risk descriptions set out the risk consultant's report are those that could occur if the risks are not managed. For example, the first one listed in the consultant's report is the risk of 'Lack of economic growth in the borough'. While this clearly is the risk, it is not a statement of fact. The risk management process exists to prevent the risk occurring in practice, through 'managing the risk'.

Ownership of the Risks

18. As part of the risk workshop exercise, the attendees were asked to agree which senior officer should have 'ownership' of the individual risks. Ownership in this sense means that the allocated senior officer will take responsibility for ensuring that the risk is properly managed. This involves the completion of a

'management action plan', which needs to be updated on a periodic basis thereafter. It is considered that this should take place on a six-monthly basis. Audit Committee is asked to endorse the allocation of the risks to the specified officers.

19. The register itself needs to be similarly 'owned'. It is normal practice within a local government setting for Management Team to exercise a collective ownership of the Strategic Risk Register, with Cabinet as the strategy setting committee endorsing the Register. The Audit Committee then perform the role of overseeing the risk management arrangements.

The process for monitoring and reporting action on the risk register

20. Having identified the key strategic risks, there is a need to ensure that actions are taken to manage or mitigate the risks. This requires that periodic reports are prepared. It is suggested that action on strategic risk management should be reported to Management Team on a six-monthly basis, with a subsequent report to Cabinet. The Audit Committee would also receive a six-monthly report so that it is able to monitor the effectiveness of the process. The Committee is asked to endorse this reporting process.

The respective responsibilities for the risk management process

21. In order to ensure accountability, which is vital to the effectiveness of the process, it is essential that the roles and responsibilities of those involved in the process are clear. Management Team therefore agreed the following definitions:
 - 1 The Head of Audit Partnership (together with the Audit Manager) is responsible for coordinating the strategic risk management process and reporting on the actions being taken to manage the identified risk.
 - 2 The individual senior officer 'risk owners' are responsible for taking action to manage their risks and for providing periodically updated action plans to the Head of Audit Partnership for subsequent reporting to Management Team and Members.
 - 3 Management Team is collectively responsible for the Strategic Risk Register and ensuring that strategic risk is properly managed.
 - 4 Cabinet is responsible for agreeing the Risk Strategy and adopting the Strategic Risk Register.
 - 5 The Audit Committee is responsible for ensuring the effective development and operation of risk management.

Risk Assessment

22. The Council is a complex organisation responsible for many £ millions of public expenditure. It is also a tax collector and a landlord receiving substantial levels of income. The actions of the Council have a major impact

on the community for which it is responsible. It is therefore vital that the strategic risks to the Council's objectives are identified and properly managed.

Other Options Considered

23. The alternative option would be not to have a strategic risk register; however this would bring into question the adequacy of the Council's governance arrangements and its business planning arrangements.

Consultation

24. The creation of a strategic risk register has been the subject of considerable consultation as shown elsewhere in this report.

Implications Assessment

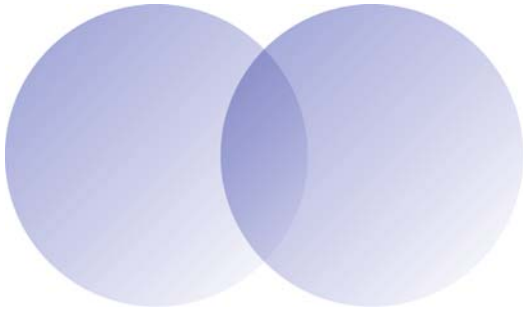
25. A strategic risk register, with proper arrangements in place for monitoring the management of the risks, should be seen as a vital element of the Council's governance arrangements.

Conclusion

26. A draft Strategic Risk Register has now been compiled. It is important that the content of the register is endorsed, that ownership is clear and that proper arrangements are put in place to monitor and report progress on the management of strategic risk.

Contact: Brian Parsons Tel: 01233 330442

Email: Brian.Parsons@ashford.gov.uk



Private and Confidential
Strategic Risk workshop report

Prepared for: Ashford Borough Council

Report author: Philip Coley
Principal Risk Consultant

Date prepared: March 2012

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



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1. Introduction

On 9th March 2012, a Strategic Risk Management workshop was conducted with senior managers and members at Ashford Borough Council. This workshop provided an opportunity for attendees to identify and prioritise the Council's key strategic risks and to develop a robust Strategic Risk Register.

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

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

1. Recycling and Environment
2. Activities for Young People
3. Economic Development and Housing
4. The Best Services Resources Allow

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

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

2. Executive Summary

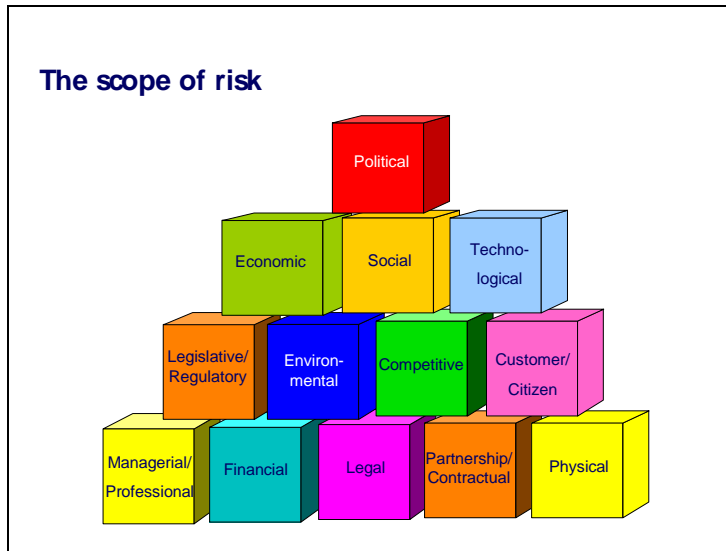
At the workshop the following risks were identified and prioritised:

Risk No.	Risk	Risk Rating Likelihood x Impact
1a)	Lack of economic growth in the borough	High (B) / Critical (II)
1b)	Failing to get the right mix and quality of housing	Significant (C) / Critical (II)
2	Volatility of key income streams	Very High (A) Critical (II)
3a)	Failure to understand levels of demand / Failure to manage expectations	Low (D) Marginal (III)
3b)	Failure to anticipate the consequences of the introduction of the Universal Credit	Significant (C) / Critical (II)
4	Failure to continue to recognise opportunities for localism for the community	Low (D) / Critical (II)
5	Lack of effective workforce planning	Significant (C) / Critical (II)
6	Members don't have the skills, capacity, experienced required to respond effectively to the changing agenda	Significant (C) / Marginal (III)
7	Lack of effective prioritisation from members and officers	High (B) / Critical (II)
8	Fail to manage the housing risk register	Significant (C) / Critical (II)
9	Not having the right funding at the right time for the right infrastructure	Very High (A) / Critical (II)

3. The Process

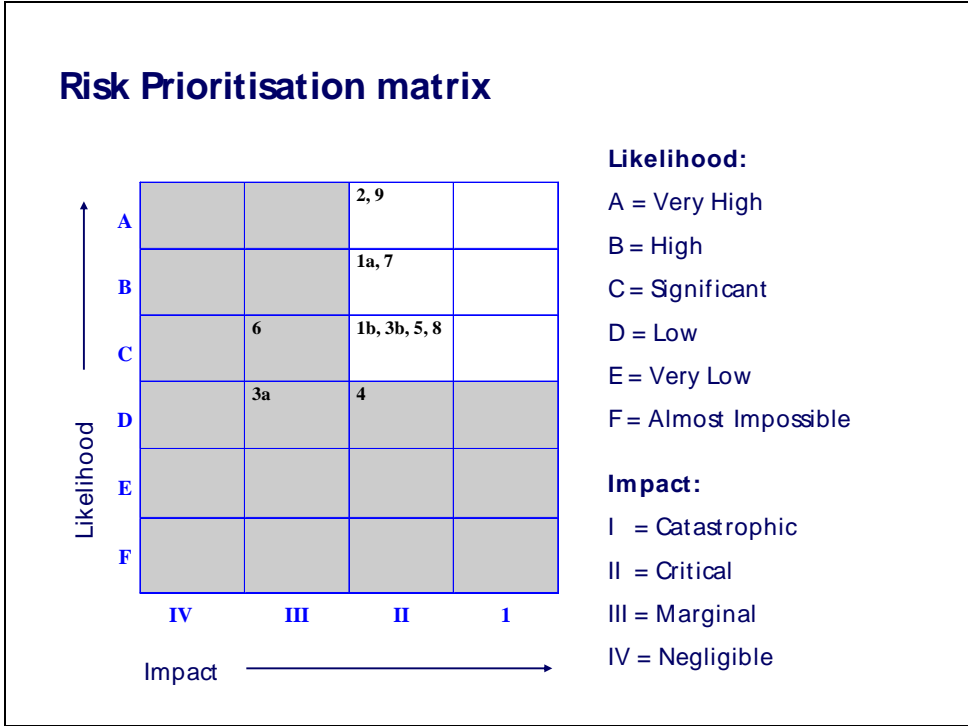
Risk Identification

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



Risk Analysis and Prioritisation

At the workshop 11 key strategic risks were identified these were then prioritised using the matrix below. In doing so, attendees prioritised residual risk by taking account of actions already in place to manage the risks.



4. Next steps

Risk Management and Monitoring

At the workshop, senior managers were assigned ownership of each of the risks and in doing so were given overall responsibility for ensuring that each risk is effectively managed.

It is therefore recommended that action plans for addressing each of the risks are completed as soon as possible. These plans should include a summary of actions already in place, an assessment of how adequate these actions are and also further actions required (including responsibilities for actions and timescales).

It is also important that the risks and associated action plans are monitored and reviewed on a regular basis to ensure that they remain relevant and up to date and risks owners have a key role in overseeing the development and review of the plans.

Appendix 1

Ashford BC Strategic Risk Register

Risk No.	Vulnerability	Trigger	Consequences	Risk Rating Likelihood x Impact	Risk Owner
1	The Council needs to work with and influence developers, businesses and other agencies to ensure that the right quality and mix of housing, infrastructure and investment in the borough is delivered.	1a) Risk of a lack of economic growth in the borough / lack of facilitation of job creation / an inappropriate balance of jobs leading to a decline in average earnings.	<ul style="list-style-type: none"> Investment not attracted to the area Local economy declines Housing fails to meet community needs Potential increase in homelessness Loss of community confidence in the quality agenda New communities not attracted to the area Strategy undermined 	High (B) / Critical (II)	RA
		1b) Risk of failing to get the right mix and quality of housing - fail to get the right units in the right places.		Significant (C) / Critical (II)	RA
2	The Council's income streams are vulnerable to a number of factors including new legislation e.g. localising support for Council Tax, local collection	Risk that key income streams are volatile and significantly adversely affected by the changing legislative and economic environment.	<ul style="list-style-type: none"> Financial plans undermined Further savings have be made Service delivery adversely affected Business Plan undermined 	Very High (A) / Critical (II)	PN

	of business rates, new homes bonus and also adverse economic conditions e.g. impacting on the return on investments.				
3	The Council is managing a reducing resource base at a time when the needs of the community are increasing e.g. people are living longer and many young people are not able to access employment. This is heightened by factors such as adverse economic conditions, and the introduction of the Universal Credit. There are also high expectations as to what the Council can deliver.	3a) Risk that the Council fails to fully understand levels of demand / fails to manage expectations / fails to remain relevant to the local community	<ul style="list-style-type: none"> • Increase in vulnerable people / vulnerable people at risk • Service mis-match • Financial implications • Business Plan undermined • Reputation undermined 	Low (D) / Marginal (III)	JB
		3b) Risk that the Council fails to anticipate the consequences of the introduction of the Universal Credit / fails to fully prepare and manage the budget consequences.		Significant (C) / Critical (II)	PN

4	The Council needs to continue to drive the localism agenda in a constructive way.	Risk of failing to continue to recognise opportunities for localism for the community / fail to take a clear leadership role / fail to be consistent around managing opportunities.	<ul style="list-style-type: none"> • Opportunities missed • Resources not allocated effectively • Residual elements of service delivery become more expensive • Community lose confidence • Reputation undermined 	Low (D) / Critical (II)	JB
5	The Council needs to develop a more flexible workforce and in doing so assess what skills are required to meet current and future needs. It also needs to undertake effective succession planning to avoid being over reliant on key managers / staff who are responsible for leading the delivery and implementation of the Council's strategic plan.	Risk of a lack of effective workforce planning / Risk that key managers / staff leave and no obvious replacements are found.	<ul style="list-style-type: none"> • Adverse impact service delivery • Momentum lost / Loss of strategic direction • Pressure on remaining staff increases • Staff morale declines 	Significant (C) / Critical (II)	MP
6	Members are being asked to make decisions against a backdrop of an increasingly complex local government agenda e.g. new legislation,	Risk that Members don't have the skills, capacity, experience required to respond effectively to the changing agenda / Risk of a	<ul style="list-style-type: none"> • Impact on the decision making process / wrong decisions made • Potential tensions between members and officers 	Significant (C) / Marginal (III)	TM

	<p>new ways of working, commercial opportunities etc.</p> <p>This is at a time when a number of new members have joined the Council.</p>	<p>lack of an effective training and capacity building process in place / Risk of a lack of an assessment of skills.</p>	<ul style="list-style-type: none"> • Opportunities missed • Business Plan undermined 		
7	<p>There is a perception that the Business Plan is not a living document and that there is a lack of effective prioritisation from members and officers - they find it hard to say 'no' and therefore new priorities are competing with existing priorities for resources.</p>	<p>Risk of an ongoing lack of effective prioritisation from members and officers.</p>	<ul style="list-style-type: none"> • Anticipated savings are not delivered • Staff fail to buy in to changes • Confusion about what is a priority • Loss of strategic direction 	<p>High (B) / Critical (II)</p>	<p>JB</p>
8	<p>Risk of failing to manage the housing risk register.</p>	<p>Note -detail to be completed by Head of Customers, Homes and Property</p>		<p>Significant (C) / Critical (II)</p>	<p>TK</p>
9	<p>The Council is planning the timely implementation of infrastructure in a volatile funding context / difficult economic climate.</p>	<p>Risk of not having the right funding at the right time for the right infrastructure / Risk of over focussing on physical infrastructure at cost of social infrastructure.</p>	<ul style="list-style-type: none"> • Dissatisfied community • Lack of the right social infrastructure • Long term problems stored up • Potential long term financial 	<p>Very High (A) / Critical (II)</p>	<p>RA</p>

			liability builds up • Reputation undermined		
--	--	--	--	--	--

Agenda Item No: 6
Report To: AUDIT COMMITTEE
Date: 25 JUNE 2012
Report Title: AUDIT COMMITTEE ANNUAL REPORT
Report Author: Ian Cumberworth



Summary:	The report sets out the Annual Report of the Audit Committee for 2011/2012
-----------------	--

Key Decision: No

Affected Wards: All

Recommendations:

- 1. Audit Committee agree the format and content of the Annual Audit Committee report.**
- 2. That the Chairman of the Audit Committee provides the report to a meeting of the Full Council to demonstrate how the Committee has discharged its duties.**

Policy Overview: Not Applicable

Financial Implications: Not Applicable

Risk Assessment: No

Equalities Impact Assessment: No

Other Material Implications: Not Applicable

Background Papers: Audit Committee Annual Report 2011/12

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

Report Title: Audit Committee Annual Report 2011/12

Purpose of the Report

1. A report has been prepared which sets out how the Audit Committee has discharged its duties during 2011/12. The report provides assurance to the Council that important governance issues are being monitored and addressed by the Committee. The report provides further assurance to support the findings of the Annual Governance Statement.

Background

2. The Audit Committee is required to obtain assurance on the control environment of the organisation. The attached report sets out how the committee has sought to achieve this.
3. The internal control environment comprises the whole network of systems and controls established to manage the Council and to ensure that its objectives are met. It includes financial and other controls, and the arrangements for ensuring the Council is achieving value for money from its activities
4. In accordance with best practice, the Committee has produced an Annual Report for subsequent provision to the Full Council.

Risk Assessment

5. The Audit Committee's role includes the need to consider the effectiveness of the authority's risk management arrangements, including the control environment and associated anti-fraud and anti-corruption activities.

Equalities Impact Assessment

6. Not Applicable

Other Options Considered

7. The production of an annual report is considered to be good practice. No other option could be recommended.

Consultation

8. Members of the Committee have been consulted on the format and content of the Annual Audit Committee report.

Implications Assessment

9. Not Applicable

Handling

10. Not Applicable

Conclusion

11. Based on the work undertaken by the Committee during 2011/12, it is concluded that the Committee is working effectively and is discharging its responsibilities.

Portfolio Holder's Views

Contact: Ian Cumberworth

Email: ian.cumberworth@ashford.gov.uk

Audit Committee Annual Report 2011/12



ASHFORD
BOROUGH COUNCIL

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Ashford Borough Council

Audit Committee Annual Report – 2011/12

1. Introduction

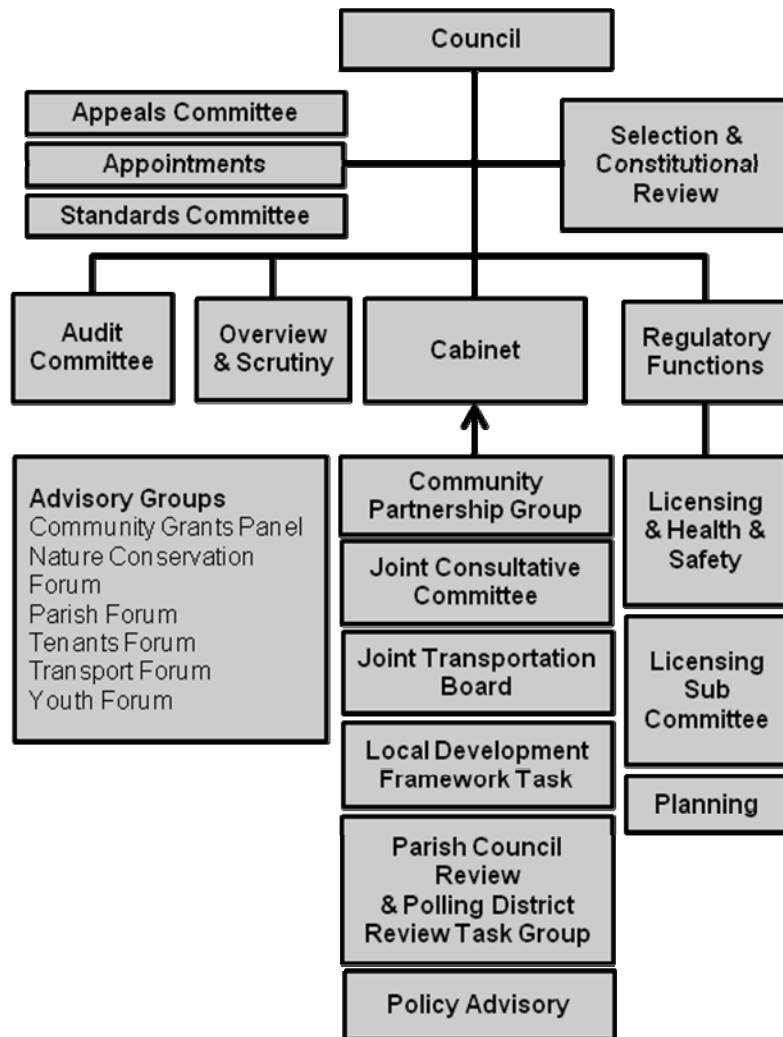
The Council established the Audit Committee as a full committee with effect from December 2006. Whilst there is currently no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of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

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

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

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

Ashford Borough Council – Committee structure



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

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

2. Terms of reference and responsibilities

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

Audit Activity

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

Regulatory Framework/Risk Management

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

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

Delegations

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

3. Membership

The Audit Committee comprises of eight members. The current Committee met on five occasions in 2011/12. Committee agenda papers and minutes are available on the Council's website www.ashford.gov.uk

Current 2011/12 Audit Committee Members (May 2011 to 31st March 2012)

**Cllr Clokie
Chairman**



**Cllr Link
Vice-Chairman**



Cllr Wright



Cllr Smith



Cllr Taylor



Cllr Sims



Cllr Marriott



Cllr Yeo



4. Committee Attendance 2011/12

The Committee was reformed after the May elections therefore the table below shows the previous membership attendance in 2011 prior to the Local elections.

Member/Officer	21/04/11
<u>Audit Committee Members up to May 2011</u>	
Cllr Wallace (Chair)	A
Cllr Ellison (Vice Chair)	A
Cllr Koowaree	Y
Cllr Link	A
Cllr Smith	Y
Cllr Taylor (Acting Chairman)	Y
Cllr Feacey	Y
Cllr Laughton	A
<u>Other members present</u>	
Cllr Woodford	Y

Committee Attendance 2011/12 (new municipal year)

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

Member/Officer	21/4/11	27/06/11	28/09/11	6/12/11	06/03/12
<u>Audit Committee Members 2011/12 (June onwards)</u>					
Cllr Clokie (Chairman)	-	Y	Y	Y	Y
Cllr Link (Vice Chairman)	-	Y	Y	Y	Y
Cllr Taylor	-	Y	A	Y	Y
Cllr Smith	-	A	Y	Y	Y
Cllr Marriott	-	Y	Y	Y	Y
Cllr Sims	-	Y	A	Y	Y
Cllr Wright	-	Y	A	Y	Y
Cllr Yeo	-	A	A	Y	
<u>Substitutes</u>					
Cllr Michael		Y		A	A
Cllr Mortimer			Y		
Cllr Mrs Bell			Y		
Cllr Wood					A
<u>Other Members Present</u>					
Cllr Shorter		Y			
<u>Officers</u>					
Deputy Chief Executive	Y	Y	Y	Y	-
Finance Manager	-	-	Y	-	Y
Head of Internal Audit Partnership	Y	Y	Y	Y	Y
Audit Manager	Y	Y	Y	Y	-
Principal Accountant (Technical)	-	-	Y		Y
Senior Member Services Officer		Y	Y	Y	Y
Investigations & Visiting Manager		Y	-	-	-
Revenues & Benefits Manager		Y	-	-	-
Senior Auditor	-	-	Y	-	-
Policy & Performance Officer	-	-	-	-	Y
Corporate Business Change & Efficiency Manager	-	-	-	-	Y
<u>Audit Commission</u>					
Andy Mack	Y	Y-	Y	Y	A
Lynne Clayton	-	-	Y	Y	Y
Daniel Woodstock	-	-		-	Y

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

5. The Committee completed the following programme during 2011/12

Function/Issue	21/4/11	07/06/11	27/06/11	28/09/11	06/12/11	06/03/12
<u>INTERNAL AUDIT ACTIVITY</u>						
Operational Plan 2011/2012		-	-	-	-	X
Audit Committee Induction		X	-	-	-	-
Annual Audit Committee report 2010/11		-	X	-	-	-
Interim six monthly report 2010/2011		-	-	-	X	-
Annual Report 2010/11		-	X	-	-	-
3 Year Strategic Audit Plan		-	-	X	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>						
Annual Fee Proposal		-	X	-	-	-
Certification of Grant Claims		-	-	-	-	X
10/11 Accounts & Governance report		-	-	X	-	X
Protecting the Public Purse		-	-	-	X	-
Audit Plan 2011/12		-	-	-	-	X
Annual Audit Letter 2009/10		-	-	-	-	-
Progress Report		-	-	-	-	X
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>						
Benefit Fraud Annual Report		-	X			
Governance Statement action plan		-			X	X
Annual Governance Statement 2010/11		-	X	X		
Risk Management		-		X	X	
Review of the Audit Committee –ID&Ea	X	-				
Principles of Partnership Governance						X
<u>ACCOUNTS</u>						
Future of Local Public Audit -Consultation		-	X			
Financial Statements		-				X
Statement of accounts 2010/11		-		X		
<u>FORWARD PLAN</u>						
Tracker		-	X	X	X	X

Induction Training

In addition to the above meetings an induction training session was held for all Audit Committee members on the 7th June 2011 to provide an overview of their responsibilities in discharging the Audit Committees responsibilities. The Committee has also received other training/briefing sessions during the year prior to the commencement of the formal meetings on areas such as Risk management, Accounts (IFRS) and Fraud

6. Assurance

The Audit Committee has considered the following areas to assist it in gaining assurance of the governance arrangements within the organisation as part of its annual work programme.

Risk Management
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's risk management arrangements• Seek assurance that action is being taken on risk-related issues identified by auditors and inspectors

This has been achieved by:

- Establishing a member/officer working group to review and develop progress on the development of Strategic Risk management within the authority.
- Participated in Risk workshops with Senior Managers and Zurich Risk services to assist in the development of a revised Risk Register. As a result of the Committees involvement it is likely that a new Strategic Register will be established in the near future.
- Receiving progress reports on Strategic risk areas, considering individual risks and their categorisation, and influencing the format and presentation of risk reports;
- Receiving progress reports on internal and external audit issues.

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

This has been achieved by:

- Considering the review of internal control for 2010/11 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2010/11
- Approving the Authority's Annual Governance Statement for 2010/11 and the action plan to address significant improvements. These were incorporated into the Improvement Plan and actions have been monitored by the Committee throughout the year;
- Received and considered the Annual Fraud report

Audit Activity

- **Approve (but not direct) Internal Audit's strategy; plan and monitor performance**
- **Review summary Internal Audit reports where they've received a 'limited' or 'minimal' assurance and seek assurances that action has been taken where necessary**
- **Receive the annual report of the Internal Audit Manager**
- **Consider the reports of external audit and inspection agencies**
- **Ensure there are effective relationships between internal and external audit, and inspection agencies**

Internal Audit

The Committee has:

- Considered and agreed the Internal Audit Plan for 2011/12;
- Received and considered the Head of Internal Audit Partnership Manager's Annual Report for 2010/2011, including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement;
- Received reports on the Internal Audit team's progress against the Plan;
- Received reports setting out the position regarding the agreement of audit reports and the assurance opinions provided for each review area;
- Considered and agreed the Internal Audit 3 year Strategic Plan

External Audit

The Committee has:

- Received and agreed the Annual Audit & Inspection Letter for 2010/11,
- Considered and agreed the Audit & Inspection Plan for 2010/11;
- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations via the corporate improvement reports.
- Received progress reports on the abolition of the Audit Commission and the selection process/outcomes for the appoint of the new regional external auditors (Grant Thornton)

Accounts

- **Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit**

The Committee has sought assurance by:

- Considering changes both to the format of the Accounts and the accounting policies used to prepare the accounts;
- Approving the Statement of Accounts for 2010/11 and later amendments;
- Receiving and considering the Annual Governance Report 2010/11, and agreeing the signing of the letter of representation by the Chairman of the Audit Committee, Deputy Chief Executive and the Leader of the Council;

7. Review of the Audit Committee's Effectiveness

It is regarded as best practice to periodically review the Audit Committee's effectiveness. In 2010/11 the Audit Partnership commissioned a peer review (Government & Improvement & Development (LGID) to be undertaken on the four partners Audit Committees covering the following elements:

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

The committee considered this report and agreed to consider a number of the recommendations, the summary set out below provides an update of the current position

Ashford Borough Council

Strengths

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

Areas for Development

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

8. Summary update

In response to this report the committee has already taken steps to address some of the issues raised as part of this review. A meeting was convened where it was agreed the committee would review the recommendations made and draw up an action plan to monitor any action taken. The attached table/appendices sets out the position as at 31st March 2012 on progress made to implement the review recommendations.

ASHFORD BOROUGH COUNCIL – AUDIT COMMITTEE ACTION PLAN

No.	Recommendation	Progress to Date	Comments
1	To further explore the option of a co- opted Independent member sitting on the Audit Committee	Members determined to keep this option under review and consider this issue periodically to determine whether it would benefit the Committees needs. The constitution has been amended to allow the Committee to pursue this option at some future time if required.	This option will continue to be reviewed by members to ensure that the needs of the Committee are effectively discharged. If it is determined at a future time that it would be beneficial to the Committee to appoint an independent (non elected) member appropriate action will taken to do so.
2	Produce the Audit Committees first annual report for 2010/2011	<i>The first Audit Committee Annual report was considered by the June (2011) Audit Committee and full Council in 2011. A similar report is to be published for the June 2012 meeting</i>	Implemented
3	The Head of the Internal Audit Partnership will develop a training programme across the partnership authorities to ensure economies of scale and a co-ordinated training programme is delivered to Audit Committee members. to ensure they are appropriately equipped to discharge there responsibilities	<i>Audit Committee induction training has been provided together with a number of other training opportunities which have been held prior to the Audit Committee meetings during the year (areas such as Governance/Accounts and Risk) via briefing sessions</i>	Implemented – Ongoing training will continue to be provided as when required
4	A report will be developed by the Head of Audit Partnership on the development of risk within Ashford Borough Council which will be brought forward for the committee for consideration	<i>Officer member/working party established and risk workshops run to refresh the strategic risk register. Reports have been provided to Audit Committee members to update them on the progress being made; it is anticipated that the revised Strategic Risk register will come forward to this committee for consideration in the early part of the new financial year.</i>	Implemented – significant progress has been made with the support of the Audit Committee to develop a new Strategic Risk Register which should be formally adopted in the near future
5	Committee could expand its governance assurance role to cover partnerships	<i>Members considered a report in March 2012 on Good Principles of Partnership Governance which will form the basis of a review of governance arrangements in key partnerships ABC is currently involved in.</i>	<i>A report is proposed to be brought back to Audit committee in September 2012 with the results of this governance evaluation</i>

6	Greater promotion of the role of the Audit Committee across the Council	<i>The Annual Audit Committee report is considered by full Council setting out the work programme covered in the previous year and the work programme for the forthcoming year. In addition the Committee has the ability to escalate issues if necessary via an Audit Committee member who also sits on Cabinet.</i>	Implemented
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Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable.

9. 2012/13 Work Programme

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

Function/Issue	06/06/12	25/06/12	18/09/12	04/12/12	05/03/13
Training Session for Audit Committee Members	X				
<u>INTERNAL AUDIT ACTIVITY</u>					
Operational Plan 2013/14		X	-	-	X
Annual Report 2011/12		X	-	-	-
Audit Committee Annual Report 2011/12		X	-	-	-
Strategic Risk		X	-	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Plan			-	-	X
Fee Proposal		X	-	-	X
Grant Claims		-	-	-	X
2011/12 Accounts & Governance statement		-	X	-	-
Audit Plan 2012/13		-	-	-	X
Audit Letter		-	-	X	
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Benefit Fraud – Annual Report		X	-	-	-
Governance statement		X	-	-	-
Governance Statement - Action Plan		-	X	X	X
Performance Compendium		-	X	-	-
<u>ACCOUNTS</u>					
Statement of Accounts 2011/12		X	X	-	-
<u>FORWARD</u>					
Tracker		X	X	X	X

Agenda Item No: 7
Report To: **AUDIT COMMITTEE**
Date: **25 JUNE 2012**
Report Title: Internal Audit Annual Report 2011/12
Report Author: Brian Parsons



Summary: To consider the work of the Internal Audit Team over the financial year 2011/12 and the opinion of the Head of Audit Partnership in relation to the Council's control environment, in the context of the Annual Governance Statement.

To decide whether the outcomes of the Internal Audit work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Authority, which supports the findings and conclusions shown in the Annual Governance Statement for 2011/12.

Key Decision: No

Affected Wards: Not applicable

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

- Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
- Note that there are no qualifications to that opinion.
- Note the results of the work of the Internal Audit Team over the period April 2011 to March 2012 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
- Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2011/12.
- Note the improvements in control that occur as a result of the audit process.
- Consider the effectiveness of the Council's internal audit service as part of the consideration of this report,

and express an opinion accordingly.

Policy Overview:	Internal Audit is a statutory service under the Accounts and Audit Regulations 2011 which state that 'the body must undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'.
Financial Implications:	None
Risk Assessment	Internal audit is a review process which evaluates the adequacy of the controls that management has put in place to manage the risks to the achievement of objectives. An inadequate control environment would mean that significant risks exist but they are not being managed.
Equalities Impact Assessment	No
Other Material Implications:	None
Background Papers:	Internal Audit Reports
Contacts:	Brian.Parsons@ashford.gov.uk – Tel: (01233) 330442

Report Title: Internal Audit Annual Report 2011/12

Purpose of the Report

1. The principal objective of the Internal Audit Service is to examine and evaluate the adequacy of internal control within the various systems, procedures and processes that are operated by the Council. The results of the work allow an opinion to be formed on the overall adequacy and effectiveness of the Council's control environment.
2. The report allows Members to consider the outcomes of the work of the Internal Audit Team over the financial year 2011/12 and the opinion of the Head of Internal Audit in relation to the Council's control environment, particularly in the context of the Annual Governance Statement.

Issue to be Decided

3. Members are asked to:
 - Note the Head of Audit Partnership's opinion that substantial reliance can be placed on the Council's control environment in terms of the overall adequacy and effectiveness of the controls and processes which are in place to achieve the objectives of the Council.
 - Note that there are no qualifications to that opinion.
 - Note the results of the work of the Internal Audit Team over the period April 2011 to March 2012 as shown in Appendix A and that this is the prime evidence source for the Head of Internal Audit's opinion.
 - Agree that the outcomes of the work and the other matters referred to in this report provide evidence of a substantial level of internal control within the Council, which supports the findings and conclusions shown in the Annual Governance Statement for 2011/12.
 - Note the improvements in control that occur as a result of the audit process.
 - Consider the effectiveness of the Council's internal audit service as part of the consideration of this report, and express an opinion accordingly.

The Annual Internal Audit Report

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

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

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

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

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

9. There are no qualifications to that opinion.

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

10. The opinion on the control environment is principally formed through the results of Internal Audit work during the financial year. However, the following factors have also been considered:

- The results of external audit work during the year and any concerns expressed by the External Auditor
- The effectiveness of the Council's risk management arrangements
- Significant control breakdowns during the financial year, whether they were found by Internal Audit or not
- The results of any form of external inspection or assessment, and:
- The effectiveness of senior management in resolving control weaknesses.

Internal Audit work

11. Twenty-one audit projects were completed between April 2011 and March 2012 and are listed at Appendix A. This is 87.5% of the original audit plan. The appendix shows the control assurance for each audit.
12. Six of those projects did not include a control assurance assessment as it was not appropriate to the projects. These were work on the Audit Commission's National Fraud Initiative and the work, which was carried out twice during the year, to validate the accuracy of the Interreg claims – this represents two separate audits.
13. The work of the Internal Audit Team has established that for the majority (87%) of the areas examined, satisfactory controls were in place at the time of the original audit. These are summarised at Appendix B.
14. Appendix C shows those areas where, at the time of the original audit, unsatisfactory controls were in place. Where weaknesses have been identified the appropriate Head of Service has since agreed the action to be taken to rectify those weaknesses.
15. The external auditors have been able to place reliance on the work of Internal Audit.

The results of external audit work during 2011/12

16. The main part of the external auditor's work relates to the Council's financial accounts. The auditors will be considering the accounts for 2011/12 shortly. The Audit Commission's Audit Manager has not raised any issues with Internal Audit that would give concern in relation to the Council's internal controls.
17. The external auditor's Annual Audit and Inspection Letter for 2010/11 (which was reported to the meeting of the Audit Committee on 8 December 2011), does not identify any control weaknesses.

The effectiveness of the Council's risk management arrangements

18. It was recognised in last years annual report that the strategic risk register was in need of a complete refresh and that no assurance was provided by the arrangements that were in place at the time.
19. The Head of Audit Partnership subsequently reported to the meeting of the Audit Committee on 28 September 2011, proposing an approach for taking

risk management forward at Ashford. The proposal included the creation of a strategic risk register.

20. The report made it clear that there was very limited resource within the Audit Partnership for risk management activity and that the arrangements would need to be delivered in the spirit of the strategic objective to provide 'the best services resources allow'. Maximum use would need to be made of the risk allowance from the Council's insurers, Zurich.
21. The committee resolved that a small task group of Members be set up to examine the Council's current strategic risks and go through the items one by one to add a layer of monitoring. A report on the findings could then go up to Council via the next meeting of the full Audit Committee.
22. The task group, led by the Chairman of the Audit Committee agreed that there was a need to move quickly to create an up-to-date, comprehensive strategic risk register. This would involve a series of one-to-one meetings with senior management and members and a risk workshop which would include Management Team and representatives from Cabinet and from the Audit Committee.
23. The interviews and the risk workshop would be facilitated by Zurich Management Services, and would be funded by the allowance that the Council receives from Zurich under the terms of its insurance contract.
24. The task group's proposals were subsequently endorsed by the full Audit Committee and by a meeting of the Cabinet on 8 December 2011.
25. Meetings between the risk consultant and senior officers and members took place in February 2012 and the risk workshop was held on 9 March 2012.
26. A report on the Strategic Risk Register is shown elsewhere on the agenda for tonight's meeting.
27. It is considered that sufficient progress has been made on risk management for the arrangements to provide some assurance. However, further work needs to be done during 2012/13 to complete the 'management action' process and to develop a regular reporting regime. In the longer term, further work can be carried out to develop a greater awareness of operational and project risk management.

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

28. There were no significant control breakdowns during 2011/12.

The results of any other form of external inspection or assessment

29. There have been no governance or control based external inspections or assessments during 2011/12, other than the normal external audit work. The external auditor's annual letter for 2010/12 was reported to the meeting of the

Audit Committee on 6 December 2011. The external auditor did not identify any significant weaknesses in the Council's internal control arrangements.

The effectiveness of senior management in resolving control weaknesses

30. Heads of Service are required to respond to every audit report where recommendations are made, by completing an action plan which sets out the action that will be taken to address the audit recommendations. The response is assessed for adequacy; to ensure that the proposed actions are sufficient and that any weakness will be addressed within a reasonable period.
31. Two reports were issued during 2011/12 relating to areas where a limited or control assurance was assessed as being in place. The responsible Head of Service subsequently completed an action plan setting out comprehensive and timely actions to address the audit recommendations. These two areas are awaiting a follow-up.
32. Internal Audit carries out a follow-up to each audit to ensure that the actions have been taken in practice.
33. 7 follow-ups took place during 2011/12. These are shown at Appendix D.
34. Based on the generally prompt and positive responses received from senior management and the results of follow-up work, it is considered that senior management is effective in resolving control weaknesses.

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

35. The opinion of the Head of Internal Audit on the internal control environment is particularly relevant to the preparation of the Annual Governance Statement. In that context, it should be noted that there are two audit reports where only limited control assurance was found to be in place, which had not been the subject of a follow-up at the end of the financial year:
 - Data Protection
 - Gypsy Site
36. The issues raised in the audit of the Gypsy Site are service based and do not have a corporate or material impact, whereas the matters relating to Data Protection are corporate and cover procedures that are prescribed by statute. Therefore only the Data Protection audit needs to be added to the Annual Governance Statement as an 'outstanding control weakness'.

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

37. The internal audit function has three internal performance targets. The targets are:
 - Completion of the annual internal audit plan (90% target)

- Percentage of chargeable time (i.e. time spent on planned audit work – the target for the operational auditors is 85%)
 - Achievement of customer care targets (85% positive response target)
38. The target for completion of audit projects within the internal audit plan for 2011/12 was 24 projects. This has to be achieved through the completion of twelve projects by each operational auditor.
39. In practice the number of projects completed during 2011/12 was 21, which is 88% of the target.
40. Customer surveys are issued to clients following each internal audit to assess satisfaction with the audit process. The responses have been very positive. In addition, an annual survey of Heads of Service is carried out in order to obtain responses on the quality of internal audit, perceptions of auditor skills and the value of audit reports. Again, responses have been positive.

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

41. The Code sets out the standards that the Internal Audit team has to comply with in order to meet the statutory requirement. A copy of the code has been provided to each auditor. The Code contains a checklist which allows a self assessment of compliance with the code to be carried out.
42. On the basis of a self assessment of compliance with the code and on comments made by the external auditor, it is considered that the work of Internal Audit at Ashford is in accordance with the Code of Practice.
43. A detailed Internal Audit Manual is in place.
44. A comprehensive internal audit quality assurance programme is in place to:
- Ensure that work is allocated to auditors who have the appropriate skills, experience and competence
 - Ensure that all staff are supervised appropriately throughout all audits
- The supervisory process covers:
- Monitoring progress
 - Assessing quality of audit work
 - Coaching staff
45. The quality assurance programme is maintained through the ongoing review of reports and working papers by the Audit Manager and the Head of Audit Partnership and through adherence by all members of the audit team to the Audit Manual and the Code of Practice.

Assurance levels

46. Internal Audit use 'assurance levels' or assurance statements to provide the overall audit opinion for the service or area that has been reviewed. The use

of an assurance level is consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. There are four assurance levels, as set out at Appendix E. The consistent use of assurance levels allows a balanced view to be taken of the overall adequacy of control within the Council.

47. In the financial year 2011/12, a total of fifteen audit reports included an assurance assessment for the area that had been audited (six did not). The initial assurance assessments were categorised as follows:

	2011/12	Previous year
High	1	1
Substantial	12	11
Limited	2	6
Minimal	0	0
Not given	6	4
Total	21	22

48. The collective assurance level, which can be extracted from the audit work performed during 2010/11, provides considerable evidence to support the statutory Annual Governance Statement, with 87% of the reports having a positive assurance assessment identifying control assurance as 'substantial' or 'high' at the time of the audit.

Reporting of Internal Audit work to the Audit Committee

49. Internal Audit work is reported at six-monthly intervals. An interim report, showing the first six months work of the financial year 2011/12, was provided to the Audit Committee meeting on 6 December 2011.

Mid Kent Internal Audit Partnership

50. The four-way Internal Audit shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells came into being on 1 April 2010. Since that time a considerable amount of work has been done in order to embed the arrangements.
51. The financial year 2011/12 was a period of consolidation for the Partnership, with audit systems and processes being made consistent across the four partner sites.
52. Feedback on the first year of the Partnership has been positive at all four Councils.
53. During 2011/12, the Audit Partnership took on the responsibility for facilitating the risk management process at Ashford, with no increase in resources or costs.

Other issues - Staffing

54. The team of operational auditors comprises two staff. Each auditor is expected to complete twelve audit projects during the year.
55. Under the partnership arrangement, the extent of audit management for the Ashford audit service is the equivalent of 0.5 full time employees. The management resource is used for audit planning, review of audit reports, supervision, strategic management, risk management and reporting to the Audit Committee and to the Management Team.
56. The total staffing establishment for Internal Audit at Ashford is therefore 2.5 FTE. It is considered that internal audit resources for Ashford are at a 'de minimis' level.

Risk Assessment

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

Equalities Impact Assessment

58. Not applicable.

Other Options Considered

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

Consultation

60. Individual audit reports are provided to the respective Head of Service for consideration and implementation, with copies to the Deputy Chief Executive and the Chief Executive. The Head of Service is also made aware of the narrative that will be used to report the audit to the Audit Committee. Client views are sought generally in terms of the internal audit service and specifically in relation to individual audit reviews.
61. The Audit Manager has recently conducted a series of interviews with Heads of Service in order to establish their views and their perceptions of controls and risks. The results of this exercise will help to inform future audit plans,

Implications Assessment

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

Handling

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

Conclusion

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

Portfolio Holder's Views

65.

66.

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APPENDIX A

ASHFORD BOROUGH COUNCIL Summary of Report of Audit Assignments: April 2011 – March 2012: Assurance Assessments

Audit Ref.	Report/Project	Date of Report	Report Assurance Level	Follow Up Assurance Assessment
1	DEBTORS	JUNE 11	SUBSTANTIAL	Scheduled July 12
2	INTEREGG CLAIM 5 & SPOT CHECKS	JULY 11	N/A	N/A
3	INSURANCE	SEPT 11	SUBSTANTIAL	Scheduled June 12
4	NATIONAL FRAUD INITIATIVE	MAY 11 & MAR 12	N/A	N/A
5	RENOVATION GRANTS	OCT 11	SUBSTANTIAL	Scheduled June 12
6	DATA PROTECTION	NOV 11	LIMITED	Scheduled June 12
7	FOOD & SAFETY	DEC 11	SUBSTANTIAL	SUBSTANTIAL June 12
8	DWP INVESTIGATION	SEPT 11	N/A	N/A
9	SINGLE SOURCE SUPPLIERS	OCT 11	N/A	N/A
10	PAYROLL	DEC 11	SUBSTANTIAL	Scheduled July 12
11	GIFTS & HOSPITALITY	DEC 11	SUBSTANTIAL	Scheduled June 12
12	RESPONSIVE REPAIRS	DEC 11	SUBSTANTIAL	Scheduled July 12

Appendix & Audit No.	Report/Project	Date of Report	Report Assurance Level	Follow Up Assurance Assessment
13	CHILMINGTON GYPSY SITE	JAN 12	LIMITED	Scheduled September 12
14	GREENOV	JAN 12	N/A	FEE EARNING
15	INTEREGG CLAIM 6 & FIRST LEVEL CONTROL AUDIT	JAN 12	N/A	N/A
16	TREASURY MANAGEMENT	FEB 12	SUBSTANTIAL	Scheduled Aug 12
17	RECYCLING CREDITS	FEB 11	SUBSTANTIAL	Scheduled Sept 12
18	BANK RECONCILIATION	MAR 12	SUBSTANTIAL	TBA
19	LAND CHARGES	MAR 12	SUBSTANTIAL	Scheduled Sept 12
20	COUNCIL TAX	MAR 12	SUBSTANTIAL	Scheduled Nov 12
21	GATEWAY	MAR 12	SUBSTANTIAL	Scheduled Sept 12

Summary of Internal Audit evaluation of control environment – projects assessed as substantial or high

Service: Revenues and Benefits
Audit Title Debtors
Report Issued: June 2011

Audit Scope:

- To evaluate the effectiveness of the key controls of the Sundry Debtors system which ensure that: -
 - Debtor accounts are promptly and correctly raised in respect of
 - miscellaneous and service charges due to the Council
 - Debtor accounts are promptly followed up when no payment has been received
 - Debtor accounts are accurately recorded in the Council's accounts
 - Payments are promptly and accurately posted to debtor accounts
 - All write offs of amounts due are appropriately authorised

- To establish the action taken to implement the agreed audit recommendations from the previous audit review on Sundry Debtors dated January 2010.

Key Findings:

The audit testing confirmed that service areas are raising debtors' accounts appropriately for the correct amount and on a timely basis. The payments received are via an automated process which operates separately from Debtors staff, thus containing a segregation of duties. Audit testing found that all payment transactions are posted to the correct debtor account on a timely basis. The changes introduced to the recovery stages follow sound principles and ensure that the recharging arrangements for service areas that use the debtors system are equitable. Satisfactory records and mechanisms are in place to monitor debts. Audit testing on a sample of write-offs found that each case is well documented and the decision to write off the debt was justified.

The Corporate Debt Recovery policy needs to be updated to reflect changes to the recovery process and the relatively recent change of management responsibility for the Debtors system. There, is also a need to review the accounts that are in credit. Write offs should be processed on a more timely basis.

Assurance level: Substantial

Management Response Summary:

All recommendations will be implemented.

Proposed Date for Follow-up: July 2012

Follow-up Assessment: N/A

Service: Financial Services
Audit Title: Insurance
Report Issued: September 2011

Audit Objectives:

- To consider the arrangements which are in place for providing advice and support to other local authorities in connection with the insurance shared service partnership;
- To consider the means by which risks are identified and prevented/mitigated and how the Councils insurance requirements are agreed;
- To establish the adequacy of the arrangements for the recording and administration of insurance claims and to verify through audit testing that claims are properly administered;
- To establish the adequacy of arrangements for the annual review and negotiation of insurance premiums.

Key Findings:

The auditor's detailed testing of a sample of claim files resulted in positive results. It is evident that the Insurance Officers extensive career and experience in this field is to the benefit of the Council. The audit found sound arrangements to be in place at the renewal stage and for the payment of insurance premiums.

The audit report recommends that the shared service arrangements with Maidstone Borough Council are formalised through a simple agreement which defines the service and roles and responsibilities for each party. The audit found delays in recharging the Insurance Officers time to the participating authorities (Maidstone and Tunbridge Wells).

The audit found that suitable arrangements are in place for determining the Councils insurable risks; however there is a need to raise the awareness of service managers to consult with the Insurance Officer and notify her of new risk areas.

Assurance level: Substantial

Management Response Summary:

The management response is considered to be satisfactory with agreement to implement the six audit recommendations.

Proposed Date for Follow-up: June 2012

Follow-up Assessment: Not applicable at this time

Service: Customer Homes and Property
Audit title: Renovation Grants
Report Issued: October 2011

Audit Objectives:

To establish whether:-

- Grants are awarded in accordance with the conditions of the scheme.
- Entitlement and grant payments are accurately calculated and recorded within the Council's Accounts.
- Appropriate charges are applied on the Land Registry where necessary.

Key Findings:

The review focused on key management controls that are in place to ensure Renovation and Disabled Facility Grants are awarded and processed in accordance with policy guidelines.

Overall the report concluded that the controls over the arrangements are strong and provide a substantial level of control assurance. However, several areas were identified where improvements should be made; these include the need to ensure charges are registered with Land Charges in a timely manner, and that processes are developed for reclaiming charges when properties are subsequently sold.

Assurance level: Substantial

Management Response Summary:

Two of the four recommendations are accepted and will be implemented in a timely manner. Of the two recommendations not agreed, one is now not necessary as the particular grant scheme has finished, and the second is not feasible with the current level of resources.

The Management Response is considered to be adequate.

Proposed Date for Follow-up: June 2012

Service: Environmental Services
Audit title: Food Safety
Report Issued: December 2011

Audit Objectives:

- To establish if the Environmental Health – Commercial Team operates in accordance with applicable legislation and ABC's published policies
- To identify and evaluate procedures for registration, inspection, and monitoring of food premises
- To identify and evaluate procedures for complaints and enforcement
- To review other elements supporting the delivery of the food safety function such as hygiene aspects, resource, training and records

Key Findings:

The majority of findings relate to adherence to 'the Standard' (a formalised concept derived from Food Safety legislation). The Food Safety function is generally discharged in accordance with The Standard and the audit recommendations address minor weaknesses.

The remainder of findings related to records and record keeping, in part derived from The Standards but also subject to additional considerations (The Data Protection Act 1998 and the Chartered Institute of Environmental Health, CIEH). Recommendations addressed evidential records custody and retention, the data protection principles (record retention and purpose), and proof of identity aspects affecting examination and award of certificates.

Assurance level: Substantial

Management Response Summary: All recommendations are accepted and action has started to address all of them by December 2012. Management will review the elements derived from the Standard and ensure that operational processes (service planning, maintenance of policies & procedures, internal verification of conformance) are considered and revised in keeping with the Standard's provisions, the Data Protection Act 1998, and the CIEH.

The management response is considered to be adequate

Proposed Date for Follow-up: June 2012

Follow-up Assessment: Substantial

Service: Personnel and Development
Audit title : Payroll
Report Issued: December 2011

Audit Objectives:

- To verify the accuracy of calculations for starters, amendments and leavers.
- To establish whether redundancy payments have been accurately calculated and, appropriately authorised.
- To establish whether the payments made via BACS are secure and correct.
- To review the accuracy of the interface and reconciliation between the payroll system and general ledger (e-Financials system).

Key Findings:

Overall the arrangements in place for making amendments to the payroll are sound and audit testing confirmed a substantial level of assurance over the accuracy of the figures calculated by Payroll staff. However, improvements are required to the administrative arrangements for the council's lease car scheme.

Assurance level: Substantial

Management Response Summary: The recommendations are accepted and will be implemented in a timely manner.

The management response is considered to be adequate.

Proposed Date for Follow-up: July 2012

Service: Personnel and Development
Audit Title Gifts & Hospitality/Declarations of interest
Report Issued: December 2011

Audit Objectives:

- To ensure that offers of gifts and hospitality are being recorded and reviewed in accordance with the Council's Code of Conduct for staff;

- To ensure that officer declarations of interest are being recorded and reviewed in accordance with the Council's Code of Conduct for Staff;
- To ensure that the Council is accurately publishing offers of gifts and hospitality and officer declarations of interest under the transparency agenda.

Key Findings:

The audit report acknowledges the recent introduction of electronic systems, which have replaced the manual registers and forms that have previously fulfilled the purpose of recording officer hospitality and declarations of interest. The electronic systems, which were developed in-house, are efficient and fit for purpose. The audit makes one recommendation to tighten the procedure and approval process for staff engaged in additional employment, where their salary grade is above spinal point 30.

Assurance level: Substantial

Management Response Summary:

The recommendation is agreed and all future 2nd job declarations from officers above SCP30 will be written to in accordance with the Code of Conduct.

Management response is considered to be fully adequate.

Proposed Date for Follow-up: June 2012

Service: Customers Homes and Property
Audit Title: Responsive Repairs
Report Issued: December 2011

Audit Objectives:

- To establish and evaluate the procedures in place for controlling the responsive repairs service, to include order raising, variation orders and the subsequent payments;
- To establish and evaluate the pre and post inspection regime which should be integral to the responsive repairs service;
- To establish and evaluate the controls in place, specifically for customer service and performance monitoring;
- To establish and evaluate the budgetary control arrangements for the responsive repairs budget.

Key Findings:

The key processes in place for order raising and payment of works were found to contain good controls. However, there is a weakness in the authorisation controls. It is recommended that the Housing Management computer system is reviewed to establish whether the control weakness can be addressed within the system. Appropriate checks are in place at key stages of the payments process, which are also well evidenced through supporting reports. Testing of the payments process confirmed that payments are correct.

The arrangements for pre and post inspections had recently changed at the time of the audit and the revised arrangements will be a specific focus of the subsequent follow-up review.

The responsive repairs service from the perspective of tenants and the performance of the contractor is subject to ongoing monitoring and review.

Assurance level: Substantial

Management Response Summary:

Four of the five recommendations will be implemented and the action will include the introduction of an authorisation framework for the Orchard (Housing Management) system.

The recommendation, to implement a contingency plan for the responsive repairs service, is not accepted as the service already has sufficient resilience through using various contractors. We also have had experience of an early termination of responsive repairs contracts.

Proposed Date for Follow-up: July 2012

Follow-up Assessment: N/A

Service: Financial Services (Accountancy)

Audit Title: Treasury Management

Report Issued: February 2012

Audit Objectives:

- To establish and evaluate the controls over the operational arrangements for Treasury Management;
- To test that transactions are in accordance with the Council's Treasury Management Policy;
- To confirm the implementation of agreed audit recommendations from the last audit on Treasury Management.

Key Findings:

The Council's Treasury Management Strategy (2011-12) was approved by the Cabinet at its meeting on the 10th February 2011. The Cabinet now receives regular information on Treasury Management performance as part the Revenue Budget Monitoring reports, which are subsequently reviewed by the Overview and Scrutiny Committee. It was evident from the reports reviewed during the audit, that Members are kept informed of Treasury Management activity and where appropriate, the decisions taken under the Strategy.

Testing of investment transactions confirmed that investments are made in accordance with the Treasury Management Strategy and are supported by the expected documentation. Transactions made on the Council's interest bearing accounts are appropriate and were verified during the audit.

The controls surrounding the Bank-line system, which is the facility used by the Council to make Treasury Management transactions are satisfactory.

Assurance level: Substantial

Management Response Summary: Two of the three recommendations are accepted and will be implemented.

Proposed Date for Follow-up: August 2012

Follow-up Assessment: N/A

Service: Environmental Services
Audit Title Recycling Credits
Report Issued: February 12

Audit Objectives

- To establish whether the income and expenditure incurred in relation to recycling initiatives is accurately accounted for, with appropriate evidence in place to support transactions
- To establish whether the monthly claim for recycling credits is accurately completed and submitted, with appropriate supporting evidence
- To establish whether performance indicators are accurately reported on the waste data flow system

Key Findings

The audit focused on the financial aspects of recycling initiatives and set out to establish whether income and expenditure was appropriately accounted for with supporting evidence in place in relation to income and expenditure for the following areas; recycling grant claims, bring sites, recycling credits, and the blue box scheme. This incorporated ensuring the accuracy of performance data entered on the governments Waste Data Flow (WDF) System. It was established that sound processes are in place for income and expenditure and data quality control.

Assurance level: Substantial

Management Response Summary:

The management response is considered to be satisfactory with agreement to implement all six recommendations from the audit.

Proposed Date for Follow-up: September 2012

Follow-up Assessment: N/A

Service: Finance
Report title: Bank Reconciliation
Report Issued: March 2012

Audit Objectives

- To establish whether appropriate procedure notes are in place for the completion of the bank reconciliation process.
- To establish whether the bank account is being reconciled on a monthly basis and in a timely manner.
- To establish the accuracy of feeder system reconciliations used to compile the bank reconciliation.

Key Findings

The audit established that responsibility for banking is clearly defined within Financial Procedure Rules and that procedure notes for completing the reconciliation are in place. However, the procedure notes are in need of updating. There should be a sharing of knowledge about the reconciliation process (between the Principal Accountant and Accountancy Assistant) to improve resilience.

The audit confirmed that appropriate arrangements are in place for the treatment of returned and un-cleared cheques.

Although not specifically reviewed as part of this audit, previous audits have highlighted the need to re-engineer the overall Bank Reconciliation to make it more automated. This was discussed with the Finance Manager during the audit, who confirmed that this is still the objective. However, significant updates are due to be made to the Main Financial System and the Income Management System before this review can commence.

Assurance level: Substantial

Management response – Awaiting a response at 14 June 2012.

Proposed date for follow up: TBA

Follow up assessment – N/A

Service: Planning and Development
Report title: Land Charges
Report Issued: March 2012

Audit Objectives:

- To ensure that suitable controls are in place to record requests for searches and to accurately notify the results;
- To ensure all income from land charge searches is properly received and accounted for.

Key Findings:

The audit established that the procedures for processing land charge searches are generally sound. The Land Charges team is performing well with 97% of searches processed (up to January 2012) completed within the 2 day target. At the time of the review, the fee income from land charges for 2011/12 was £203k against an original budget of £185k.

The evaluation of the controls identified a specific weakness with the Acolaid system which allows search transactions to be processed and completed without recording a fee. Furthermore, there is a lack of 'division of duties' in the role of the Acting Land Charges Team Leader, whereby she has administration access to the (Acolaid) Land Charges module but also processes search applications in her own right.

Assurance level: Substantial

Management Response Summary:

All of the recommendations are accepted and management action will be taken to address the control issues identified from the audit. Specifically the fee report will be rewritten to pick up any blank entries and discussions are being held with the software supplier to see if the fee field can be made a mandatory field. The appointment of a senior Land Charges Officer will provide for a better separation of duties and the fee reconciliation has been brought up to date.

Proposed Date for Follow-up: September 2012

Follow-up Assessment: N/A

Service: Revenues and Benefits
Audit title; Council Tax
Report issued: March 2012

Audit Objectives

To establish whether:

- The recovery and enforcement procedures are carried out in accordance with statutory requirements.
- All recovery action taken is supported by documentary evidence.
- All relevant records and accounts are updated to record the action taken; which must be legitimate and appropriate and whether write-offs are correct and are properly authorised.
- To consider the use of Committal Proceedings, Charging Orders and Bankruptcy as advanced methods of Council Tax recovery.

Key Findings

Members of staff who have access to the Revenues and Benefits system are required to sign declarations on the acceptable usage of the system and the need to protect confidential information. Testing at the time of the audit found that the declarations are in need of updating.

Initial recovery stages are automated within the system, which ensures the timeliness of the recovery process. Pre-court summonses are appropriately issued and a bulk request for liability orders is presented to the Court. Once a liability order has been granted the total costs for the summons and liability order, £120 are applied to council tax account. Where possible attachments to benefit and earnings are initially sought before debts are referred to the Council's bailiffs. If debts are not recoverable they are forwarded for write-off. An appropriate reconciliation between the schedule presented to Cabinet and the write-offs processed on the system was completed during the audit and found to be correct.

At the time of the audit the total value of Council Tax debt was circa £2.9m of which 1.07m was directly actionable by the Recovery and Enforcement Team, i.e. not with the bailiff or pending attachment of benefit/earnings. The outstanding debts covered the period 97/98 to date.

To audit report recommends ensure that a decision chart should be developed to aid the Recovery and Enforcement Team to prioritise debt and ensure that appropriate action is taken in a timely manner for debts returned from the bailiff

The use of charging orders and bankruptcy proceedings should be further investigated and adopted, where financially viable, as alternative recovery routes to committal proceedings.

A formal framework and guidance on how decisions are made should be developed together with a protocol with Social Services to ensure that vulnerable adults can be identified and dealt with appropriately before advanced recovery action is taken.

Assurance level: Substantial

Managers Response summary: The audit recommendations are accepted and will be implemented.

Proposed Date for Follow-up: November 2012

Follow-up Assessment: N/A

Service: Customers, Homes & Property
Audit title: Gateway
Report issued March 2012

Audit Objective:

- To test and evaluate the financial procedures operated at the Ashford Gateway Plus.

Key Findings:

Prior to the Ashford Gateway Plus opening, the Customer Services Manager / Joint Operations Manager Gateway drew up procedure notes covering the operational procedures for financial systems at the Ashford Gateway. The procedures were developed in consultation with the Exchequer Manager and Internal Audit. This audit has primarily considered compliance with the procedure notes.

The review primarily focused on the financial procedures as they relate to the scan coin machines, security of monies on site, end of day procedures for income from the tourist information centre and general key holding and access arrangements to money. The audit has also considered the control of accountable stationery and the arrangements for dealing with cheques.

The audit found that the arrangements are being operated in accordance with the stated procedures set out in the procedure note. One minor issue is highlighted in the audit report, which recommends that consideration is given to discontinuing the acceptance of cheques as a method of payment at the Gateway.

Assurance level: High

Managers Response summary: Recommendation accepted

Proposed Date for Follow-up: September 12

Follow-up Assessment: N/A

Other audit project work

Service: Corporate Review
Audit Title Interreg Project – Mosaic
Report Issued July 2011 and January 2012 (Note; this represents 2 separate audits)

Audit Scope:

The Council is a participant in the 'Mosaic Project', which is led by the Kent County Council. The project will provide a detailed socio-economic map of the County to assist resource planning and to focus service delivery to where it is needed. The project is part of an initiative involving the 2 Seas Cross-boarder Co-operation Programme involving the French Nord-Pas de Calais region, the south coast of England and the Dutch and Flemish coasts.

The project deals with economic, environmental and social issues. The activity receives up to 50% funding from the European Union.

Ashford Borough Council's contribution to the funding has been through the time that officers spend developing the project. This means that detailed records have been required for all aspects of the work. Internal audit take the role of First Level Controller and audit the time

records and the detailed claims prior to their submission. Failure to perform this role would result in funds being withheld.

Key findings:

The audit work consisted of compiling and reviewing the documents and the calculations relating to the two claims that were submitted to Kent County Council during 2011/12. In addition the Internal Audit work was subsequently independently reviewed by the European auditors appointed by the Interreg lead partner, to obtain further assurance on the quality of work undertaken. This eventually allowed the final claim to be agreed and the payment to be made by the EU.

No report was issued – no response is required

Service: Corporate
Audit Title National Fraud Initiative (NFI) 2010/11 Interim & Final Review

Report issued: May 2011/March 2012

Audit Scope:

The National Fraud Initiative is a biennial data matching exercise carried out by the Audit Commission. The Council is required to submit a broad range of data which is then matched against other data sets that the Audit Commission has obtained from a number of sources.

The data sets provided to the Commission are Benefits, Payroll, Housing Rents, Right to Buy, Creditors (standing data and history), Residents Parking Permits, Concessionary Fares, Licensing and Insurance claims. The audit sought to confirm that data owners had commenced action on investigating the data matches that relate to their area of responsibility; and to provide a position statement to the Deputy Chief Executive as the responsible financial officer (Section 151 Officer).

Key Findings

Internal Audit continues to be the 'Key Contact' for the NFI exercise which includes coordinating and monitoring progress of investigations, ensuring that the Council complies with the Code of Data Matching Practice, disseminating information from the Commission in relation to the NFI exercise and administering access to the secure web site. In total, for Ashford 1795 data matches were identified by the Audit Commission from the data submitted.

The audit established that good progress had been made in terms of investigating the matches

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

Management response

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

Service: Revenues and Benefits

Audit title: Department of Works and Pensions instigated security access breach – internal investigation

Investigation completed: September 2011

Audit scope:

The Council was advised by the Department of Work and Pensions (DWP) that a member of staff within the Revenues and Benefits section had apparently misused the permitted access to the Government Connect Secure Extranet (GCSX) national database, which holds information relating to claimants for a range of welfare benefits.

Access to GCSX is very tightly controlled and very closely monitored by the DWP. All staff using GCSX are required to undertake specialised training which sets out their personal responsibilities. They are then required to sign a statement confirming that they accept those responsibilities. A breach of the 'rules' can represent a breach of the Data Protection Act 1998 and the Computer Misuse Act 1990.

The DWP made it clear that the member of staff's access to GCSX would be immediately suspended and that DWP regard any breach to be a very serious matter, which they expect the Council to deal with in an appropriate manner. The apparent security breach was potentially also a breach of the Council's internal rules.

Findings:

The Deputy Chief Executive immediately referred the matter for investigation by Internal Audit. The investigation established that the breach had indeed occurred. The member of staff admitted that he had improperly accessed an account. It was concluded that this was a one-off incident and there was no malicious intent.

The member of staff was interviewed under the council's disciplinary procedures and found to have committed gross misconduct by breaching the code and the trust placed in him. He was subsequently dismissed.

Service: Corporate
Audit Title: Single source suppliers
Report issued: October

Audit scope:

The audit set out to establish whether the 'guidance/rules' on engaging consultants, which had been endorsed by the Executive in November 2008 had been incorporated into Contract Procedure Rules and was being observed in practice. This review has formed part of a series of reviews undertaken on behalf of the Overview & Scrutiny Committee to ascertain progress made to implement changes in commissioning/working practices.

Findings: Testing concluded that the arrangements had/were being put in place to address the issues associated with engaging consultants/single source suppliers but had not yet become fully embedded within the organisation. Processes were being introduced by management to strengthen the current arrangements and was anticipated that appointments will be made on a more consistent basis in the future. Compliance will be further reviewed in work to be undertaken in the 2012/13 audit plan

Management Response: A further report was provided to a meeting of the Overview & Scrutiny Committee on the 27 November 2011 by the Deputy Chief Executive, setting out the timescale to introduce the revised arrangements. A further follow up review was undertaken and reported to Overview & Scrutiny in March 2012

Service: Planning & Development (Economic Development)
Audit title: Intereg Project Greenov
Report issued Dec11 & Jan 12

Audit scope:

The GREENOV project aims to develop the economic opportunities for sustainable renovation in North West Europe by stimulating the innovation capacity of SMEs working in the field. This will be done by developing a cluster, one of the most effective tools for competitiveness and economic development, thereby multiplying and diversifying opportunities on the market.

The partners (12) identify technologies, know-how and best practices in the field of sustainable renovation, and carry out investments utilising Greenov funding to stimulate the market, stakeholders and raise awareness among decision-makers and inhabitants.

Renovation operations of existing buildings, including insulation works, double glazing, ventilation, etc. to improve energy efficiency and have immediate effects on climate change. Improvements to indoor air quality, re-use/recycling and other sustainability issues like safety and accessibility are also included. The project also provides job opportunities in the building sector at the local level

Ashford Borough Council took over responsibility for the Greenov project from Ashford's Future in autumn 2011 and to date, Greenov funding has been utilised to install energy efficiency initiatives in St Mary's Church and the Gateway building.

This initiative will continue to be funded by the EU until 2014 therefore the First Level Controller work undertaken by Internal Audit, will continue to attract a fee income for the Council.

Audit findings:

The audit work consisted of acting as the First Level Controller (FLC) compiling and reviewing the documents and the calculations relating to the claims that were submitted to the Lead Partner during 2011/12. Failure to sign off claim within specified timeframes could result in funds being withheld from the European Lead partner. It was found that all claims were submitted on time and payment from the Lead Partner is expected in the near future. The work included the need to resolve a number of outstanding issues from the previous claims made by Ashford's Future in order to ensure that Ashford Borough Council could optimise funding within the Greenov initiative.

No report was issued – no response is required

Other work - Consultancy/Financial Advice/Guidance

A number of smaller pieces of work were carried out during the year including work on:

- Corporate Credit Card procedures
- Gateway Financial Procedures
- Income reconciliation processes and development of spreadsheets to Facilitate this
- Corporate Debt Policy

- Contract tender opening and evaluation and advice (various), and
- Assisting in the Development of 'Team Mate' (Note: Team Mate is the audit management system used by the four partner audit teams)

In addition, members of the team have attended and supported a number of training initiatives held by the Council.

Summary of Internal Audit evaluation of the control environment – projects assessed as Limited or Minimal

Service: Business Change and Technology
Audit title: Data Protection
Report Issued: 3rd November 2011

Audit Objectives:

- To establish whether there are sufficient controls and guidance in place to ensure that the Council does not breach the provisions of the Data Protection Act.
- To establish whether appropriate staff are trained and kept up to date with legislation.
- To establish whether data protection guidelines and principles are adhered to.

Key Findings:

The report concluded that the arrangements in place for ensuring compliance with the Data Protection Act were in need of strengthening. The policy and procedures were in need of review; improved handling of subject access requests was required; there was a need to promote the Data Protection Act throughout the Council and there was a need to strengthen physical security arrangements for the Civic Centre.

Assurance level: Limited

Management Response Summary:

The Audit recommendations are accepted and will be implemented in a timely manner.

The management response is considered to be adequate.

Proposed Date for Follow-up: June 2012
Follow-up Assessment: N/A

Service: Customers Homes and Property
Audit Title: Chilmington Gypsy site
Report Issued: January 2012

Audit Objectives:

To establish whether;

- The Chilmington Gypsy site is suitably managed in accordance with the policies and procedures;
- Income from rents and utilities is securely and accurately collected;
- Expenditure from utilities is suitably monitored and controlled.

Key Findings:

The audit report acknowledges that the Chilmington site has had and continues to experience, a variety of anti social issues which create unique difficulties and challenges in managing the site. At the time of the audit, the responsibility for managing the site had recently been transferred to the Housing Operations Manager. The audit report acknowledges that the officer had already identified a range of issues and had created an action plan to address them.

The audit identified a number of weaknesses and control issues. Key to these is the absence of a policy framework to set out the management objectives of the site and the policies for allocations and the approach to be taken to rent arrears monitoring and collection.

A number of recommendations were made to improve the operational management and procedures at the site, including introducing revised licence agreements to the residents of the site that reflect the current liable party. Improvements to the income accounting arrangements for electricity card sales are also recommended.

Assurance level: Limited

Management Response Summary:



The recommendations from the audit report are agreed and will be implemented. Early action had been taken to address and progress many of the audit recommendations which has included issuing new tenancy agreements to the liable party on site.

Proposed Date for Follow-up: September 2012

Follow-up Assessment: N/A

APPENDIX D

Follow Up reviews carried out	Date of Follow Up	Audit Assurance Assessment	Follow Up Assurance Assessment	Notes	Direction of Travel
Grants to Outside Bodies	July 2011	Limited	Substantial	At the time of follow up action had been taken to implement most of the recommendations. The assurance was reassessed as Substantial	↑
Housing Service Charges	August 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Expenses	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Building Control	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔
Budget Setting & Savings	July 2011	Substantial	Substantial	Assurance opinion confirmed as Substantial	↔

Use of Consultants	September 2011	Limited	Limited	Report was considered by Overview & Scrutiny September 2011 where a revised Management action plan was considered setting out an implementation programme. A further follow up was carried out in March 12 and reported to Overview & Scrutiny Committee	
	March 2012	Limited	Substantial		

APPENDIX E

Definitions of Assurance Levels

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

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

Agenda Item No: 8
Report To: **AUDIT COMMITTEE**
Date: **25 June 2012**
Report Title: **2011/2012 Annual Governance Statement**
Report Author: Paul Naylor, Deputy Chief Executive



Summary:

Each year the council must produce and approve an Annual Governance Statement. The statement summarises the approach to governance, shows how its approach fulfils the principles for good corporate governance in the public sector, and draws a conclusion about the effectiveness of its arrangements for the past financial year. The Statement will be published alongside the council's formal audited financial statements, which will be considered by the committee in September, though it is not necessary to approve the governance statement alongside the accounts.

The Statement is updated from last year (largely following a similar format) and is presented for the Audit Committee to approve for the council.

The report highlights that last year reported areas of governance needing review have been considered with work in hand to complete the necessary work this year. Just one area of significance for review is highlighted, on matters arising from an internal audit of full compliance with the council's Data Protection Act arrangements.

The conclusion is that governance arrangements are appropriate, effective and adaptive to change as circumstances dictate. Our external auditors continue to regard financial governance and internal controls as a strength.

The Portfolio Holder (Councillor Robert Taylor) has commented that the Statement is a good summary and reflects an excellent record of achievement over the past year, and supports the conclusions in the Statement.

Key Decision:	NO
Affected Wards:	None in particular
Recommendations:	The Audit Committee is asked to consider and approve the 2011/2012 Annual Governance Statement, and that it be signed-off by the Leader and Chief Executive as required by regulations.
Policy Overview:	Good standards of corporate governance are essential in all organisations. The council's arrangements are longstanding, well-developed and continue to be effective, but adaptive to change in local circumstances. Our governance arrangements are generally regarded as strong, and more so for the direction set by the cabinet's adopted Ashford 2030 statement and the adopted five-year business plan.
Financial Implications:	None
Equalities Impact Assessment	Not applicable for this report
Other Material Implications:	None
Background Papers:	The minutes of various meetings of the 'governance' committees over the course of 2011/2012.
Contacts:	Paul.naylor@ashford.gov.uk – Tel: (01233) 330436

Report Title: 2011/2012 Annual Governance Statement

Scope of Responsibility

1. Ashford Borough Council is responsible for ensuring that –
 - Its business and decision-making follows the law and proper standards.
 - Public money is safeguarded and properly accounted for and used economically, efficiently and effectively.
2. The council has a legal duty under the Local Government Act 1999 to secure continuous improvement in the way in which its roles are exercised, having regard to economy, efficiency and effectiveness.
3. In fulfilling these responsibilities the council must put in place proper arrangements to govern its affairs and promote the effective exercise of its roles, including arrangements to manage risk.
4. The council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA¹ and SOLACE² guidance '*Delivering Good Governance in Local Government*'.
5. This statement summarises the council's governance arrangements and explains how these may have varied over the past financial year and how, therefore, the council has complied with the local code. It also meets the requirements of Regulation 4 (2) of the Accounts and Audit Regulations 2003 (as amended) about publishing a statement on internal control.

The Purpose of the Governance Framework

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

¹ CIPFA – the Chartered Institute of Public Finance and Accountancy

² SOLACE – the Society of Local Authority Chief Executives

7. Part of this framework allows councillors to check progress with achieving strategic objectives (as stated in our Summary Business Plan³) and to consider whether it has delivered suitable and cost-effective services.
8. Internal controls form a significant part of the framework and help to manage accountabilities and risk to a reasonable level. Our approach to risk management was one area for review during 2011/2012 with good progress towards updating and further strengthening of arrangements made.

The Governance Framework

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

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

- A1 Following a comprehensive public consultation in 2010 and 2011 the council's priorities for service development and budget plan were set for a five-year period. Subsequently, and following the elections in May 2011 the new cabinet adopted a longer term framework (Ashford 2030)⁶ with several strategic aims as direction for the council's work, including its work with the community and partner organisations. The framework adopted the five-year business plan.
- A2 Both the 2030 framework and the five-year business plan contain priorities. These act as important focus for members and officers work, and for managing performance management and reporting arrangements, which are a most important part of governance.
- A3 Our performance management arrangements were overhauled during 2011, and converted from a previous focus on many detailed performance

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

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

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

⁶ 'Ashford 2030 – A framework', adopted by Cabinet 8 December 2011

indicators to reporting on progress with the important project priorities within the business plan. The process also reports on important service performance matters, and the local economy. Reports are produced quarterly for the Cabinet and the Overview and Scrutiny Committee.

- A3 Running throughout all themes is a strong commitment to **Localism**. Over the past year work focused on new policy development, working to develop localism arrangements with parish councils and other representative groups, and ensuring the council had suitable arrangements in place because of the implications of parts of the Localism Act.
- A4 As reported last year the council agreed, with its principal partners and stakeholders, to consider creating a new strategic Locality Board to replace the former local strategic partnership. This led to the Ashford Locality Board with a new strategic board (made up of the Cabinet plus representatives of several partner organisations and stakeholders), with the purpose to establish and deliver partners' collective priorities. The Locality Board will complement and be a delivery arm of the cabinet's 2030 framework. Also created during 2011, was the new Kent Forum. This is a pan-sector county-wide forum of leaders and senior management (chaired by the leader of the county council). It works to co-ordinate strategic activity across Kent councils and the wider public sector, and complement the work of locality boards.
- A6 Finally, on direction and during 2011/2012, the council further developed its commitment to review its core (local plan) strategy, first adopted in 2008 and heavily influenced then by central government housing and jobs growth targets. This is a major policy issue for the council and the borough (replacing previous 'local plans') as it sets the framework for local spatial planning and a vision for how the borough and places within it should develop. Since the coalition government's abolition of top-down regional housing targets, the previous prescription surrounding core strategies was removed. Therefore, and following much local need, the council has started the preparatory work to review this major policy which, when complete in 2014, will set a new and suitable scene for spatial planning and community development over the longer term.
- A7 In summary, therefore, 2011/2012 was a year in which strong commitment and progress was made to deliver new commitments and priorities on a wide range of fronts.

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

- B1 Working together, in a local authority context, to achieve the common purpose as set by the means explained above, needs arrangements that provide for accountability, representation and transparency. These are matters the council's constitution is designed for.
- B2. Through regular reviews our constitution has evolved and adapted to changing circumstances. It states the roles and responsibilities of members and senior officers. It covers protocols for members and officers' conduct and contains many procedural rules, including procedures for conducting meetings, public speaking and representation, and financial and contract rules.
- B3 It includes the Terms of Reference for the Cabinet and Portfolio Holders, and for the Council as a whole and its various committees.
- B4 Amendments must be considered by the Selection and Constitution Review Committee. One important and significant change that came into effect after the May 2011 local elections was a decision of the council in December 2010. That decision was to elect a leader and Cabinet (with the leader appointing a deputy leader and portfolio holders) for the administrative term (four years). Previously, appointing the leader and Cabinet members/portfolio responsibilities was decided each year by the full council. This decision was under procedures contained in the Local Government and Public Involvement in Health Act 2007.
- B5 Policy issues are usually considered for recommendation by the Cabinet to Full Council in public meetings, based on reports available to members of the public. Occasionally, some matters are considered as 'exempt' from public access, for reasons defined in law, though the council tries to minimise the information restricted in this way.
- B6 The cabinet decides matters collectively as a committee. Constitutionally, portfolio holders act to support their responsibilities without individual decision-making ability outside the Cabinet. A Forward Plan containing details of 'key decisions'⁷ to be made by the Cabinet is published monthly.

⁷ Key Decisions - A decision made by the council's cabinet that involves significant amounts of money to be spent or saved (the limit is at the discretion of the council, and currently is £50,000) or is a material decision involving more than one ward in the authority. The cabinet must announce its plan for key decisions in advance and in public (through a Forward Plan).

The Officers of the council work with elected Members to deliver policies as developed and approved within the constitutional framework of decision-making.

- B5 Further details on the roles and responsibilities of those Committees engaged with governance are contained in the 'Review of Effectiveness' section of this statement.
- B6 Arrangements for officers' delegations and accountabilities are set down in the Constitution.
- B7 Officers are appointed to approved job descriptions and areas of responsibility, adopting statutory and professional standards where necessary. The Constitution provides officers with delegations to aid efficient and effective running of the council's business.

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

- C1 The Constitution summarised above sets down a well-regarded formal governance framework for directing members' and officers' conduct on the council's business. These protocols also address the need to declare and disclose relevant interests that members and officers may have which may or may be felt to impact on council decision making. Statutory amendments for declaring interests are soon to come in to force, and thus later this year new guidance will be issued for members.
- C2 The council continued to operate a Standards Committee throughout the past year, chaired by an independent non-elected person that oversees conduct issues with the council's Monitoring Officer (a statutory role for a council officer). Statutory arrangements are changing in 2012, and provide for some degree of local discretion over the design of arrangements. The implications of this legislative change are being discussed with members, including the current Standards Committee, with new procedures to be in place later in 2012.
- C4 The council's Audit Committee assesses and provides assurance about the adequacy of governance arrangements. The committee has a particular focus on risk management and the associated internal control environment. The committee's role extends to providing scrutiny of the Authority's financial statements and its performance management. This point is also covered at D7 below.
- C5 As part of the council's aims to uphold high standards of integrity it continues to adopt a confidential 'whistle-blowing' policy and reporting arrangements. These are incorporated within the conditions of service for

officers, and reviewed yearly. There were no incidents for reporting during 2011/2012.

- C6 Complementing our commitment to openness and high standards of public service is our public complaints procedure. Our arrangements allow anyone to make a complaint about the council and the services it provides. Members of the public also have a legal right of recourse to the local government ombudsman if they remain dissatisfied. Reports to the Management Team summarise complaints issues and matters of learning arising. A summary of ombudsman reports for the year is included in an annual report to the Standards Committee.

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

- D1 Cabinet meetings and other decision-making committees are held in public in an open style with members of the public able to pose questions or present petitions. Final decisions are needed from the full council on matters where committees can only make a recommendation. This is usually where an issue is outside approved policy, is new policy, or outside the limits of the approved budget.
- D2 All member decisions across the formal and democratic decision-making process are minuted and published under statutory requirements. There is a presumption that information and decisions are taken in public, but occasionally (under access to information regulations) some information is regarded as 'exempt' and not published. However, the council aims as far as is possible to keep this type of information and decision to the minimum.
- D3 The council runs an Overview and Scrutiny Committee. Its role is to examine and review existing policy and operational methods, as well as providing the ability for members to 'call in' decisions of the Cabinet for review before any actions are carried out. The Committee produces an annual report to review its work and aid judgements about its effectiveness.
- D4 A public participation scheme is in place under the statutory requirements, details of which are held within the constitution. This scheme was reviewed during 2010/2011 because of statutory changes.
- D5 The council continued its commitment to transparency and going beyond the minimum legislative requirements where suitable. Wherever possible, information is made readily available to the public through the 'transparency' section of the council's website.
- D6 Freedom of Information Act enquiries are all dealt with under fixed protocols. The protocols were audited and results considered by the

Overview and Scrutiny Committee.

- D7 Risk awareness and management is a part of the council's work, for both its members and officers. The past year has seen a thorough review of the approach and a new risk management framework, which is informed by the new priorities set in the business plan, is to be considered by the Audit Committee. The approach involves:
- preparation and maintenance of service and strategic risk registers
 - periodic reviews during a year with annual risk assessments
 - guidance and training on risk management available to members and staff
 - involving members in the risk management process, principally through the Audit, and Overview and Scrutiny Committees.
 - ensuring that risk implications feature in all committee reports and decision-making
- D8 Specifically on financial management the annual budget report provides an opportunity to review its financial rules. At officer level this is overseen by the 'Chief Finance Officer (CFO) ' under Section 151 of the Local Government Act 1972 (the Deputy Chief Executive). The CFO is under a statutory duty to advise on financial risk associated with the budget. Members receive this advice as part of the annual budget report, with the outcome of a budget risk review carried out by the Overview and Scrutiny Committee.
- D9 The Overview and Scrutiny Committee will follow up risk assessments during each year as it considers proper, using the regular budget monitoring and performance management reports to the cabinet as primary sources of information.
- D10 All committee reports include reference to the potential impact on the Council's priorities and aims, and address financial, risk, equalities and other implications.

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

- E1 The council is committed to identifying and fulfilling the learning and development needs of members and officers. For its staff management the council has Investors in People accreditation.
- E2 Members' training needs are considered through a Member Training Panel.

- E3 Inductions and specific topic briefings are provided for new and existing members, and routinely for new staff. Members' knowledge and capacity is also developed through the work of informal topic specific task groups that help to shape recommendations for cabinet to consider. Use is also made of special briefings, usually prior to a formal committee, to provide opportunities for members to be informed and kept up-to-date with new legislation and important local issues and initiatives.
- E4 Officers' training needs are determined through a combination of staff performance development discussions, and assessments by the Management Team of corporate needs recommended by the Head of Personnel and Development.
- E5 A central training budget for staff needs is available and a programme then set up. After some early delay a new automated appraisal method was fully completed, linking assessments of behavioural and technical competencies to performance, as part of the council's wider performance and talent management framework.

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

- F1 Following the extensive public consultation work carried out in the previous year to inform new business plan priorities, project specific consultation continued on implementation of the business plan.
- F2 The website review, to be completed in summer 2012, will provide for clearer and easier access to information, news and consultations, and will provide for easier reporting of issues to the council's services.
- F3 Also consolidated over the past year was the council's on-line magazine, which replaced the former hard copy 'Ashford Voice' publication.
- F4 The council continues to support various forums to discuss issues relevant to representative groups across the community. For example, involved discussions have taken place through the parish forum and direct with parish council representatives over matters about issues and managing responsibilities with localism as an aim. The council continued to engage with local stakeholders through various means including its forums. These include: the parish forum; the community forums; the tenants' forum, and youth forum, as important means to engage with local people.

Is the framework effective?

11. Once a year the council has responsibility for conducting a review of the effectiveness of its governance framework, including the system of internal control. This report summarises the position for this committee to draw its conclusion.
12. The review informed by the work of managers who have responsibility for developing and upholding the governance environment. It is further informed by the Head of Internal Audit's annual report, and by reports from our external auditors (the Audit Commission) and, where applicable, from other review agencies. Effectiveness is also informed by the work and findings of the 'governance' committees (Standards, Audit, and Overview and Scrutiny committees).

External audit

13. As regularly reported to the council the past year has seen changes for our external auditors, the Audit Commission, as it prepared for its outsourcing. From next November new private sector auditors will take over from the Audit Commission. Nevertheless, our existing external audit team continued its responsibility to provide a good audit service over the past year, and regularly attended Audit Committee meetings and informal meetings with senior management.
14. During the past year our external auditor reported an unqualified opinion on the council's 2010/2011 financial statements. He continued to be of the opinion that financial governance and internal controls were good, the council is strategic in setting priorities, and it has good arrangements for securing value for money.

Internal audit

15. Internal audit is responsible for checking the quality and effectiveness of the system of governance and internal control, through a risk-based work plan. The reporting arrangements for Internal Audit require a report of each audit to the relevant Head of Service with a copy to the Chief Executive and Deputy Chief Executive. Reports include suitable recommendations for improvements to internal controls and action plans for agreement, or rejection, by Heads of Service. An Internal Audit Annual Report contains the Head of the (Internal) Audit Partnership's opinion on the overall levels of internal control (a view based on the relative significance of the systems reviewed during the year).

16. This year's report, once again, draws the conclusion that internal controls provide a substantial level of assurance.

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

Internal Audit Annual Report to the Audit Committee, 25th June 2012

17. Our internal audit work continued to be carried out as part of the four-council Mid-Kent Audit Partnership. This arrangement has worked well and has provided good ability to strengthen audit, as well as the opportunity to share in combined learning.

Overview and Scrutiny Committee

18. This committee provides means for a scrutiny role over decisions made by the Cabinet as well as providing public reviews (the overview) of issues or council services that affect local people. The committee produces and publishes an Annual Report, which summarises its work over the previous year. The 2011/2012 annual report was considered by the Overview & Scrutiny Committee on 22 May and will be submitted to Council on 19 July. The report highlighted the committee's work in several areas, including: the 2011/2012 budget; a post-May 2011 elections procedure review, and a review of proposed events for the 2012 Jubilee and Olympics, among other topics.

Standards Committee

19. As mentioned at C2, the future role of the committee is under review due to the legislative changes. Nevertheless, this committee has Terms of Reference which comply with the guidance set out by the Standards Board for England, including the statutory roles about the local Code of Conduct for members. The full committee met on one occasion during 2011/2012, to consider the annual report for the previous year). Its 'assessment panel' met on three occasions to consider exempt local conduct issues referred by the Monitoring Officer (the Head of Legal and Democratic Services), all about parish council matters.
20. This year's annual report will be considered at a future meeting of the Standards Committee. As normal, the report will also include a summary of complaints considered by the local government ombudsman.

Audit Committee

21. The Audit Committee is responsible for overseeing and reviewing governance issues related to internal control, financial and risk management arrangements. The committee considers and approves the annual accounts for the council, and adopts the Annual Governance Statement. The committee is the principal forum for consideration of our external auditor's reports. During 2011/2012 the committee met on five occasions, plus a specific induction session for the new committee. Its work included:
- considered various annual reports
 - considered and approved the 2010/11 audited financial statements
 - further work on new approaches to risk management, and principles of good partnership governance
 - recommended the council's response to the government's consultations on the future of local public (external) audit
 - considered various reports from the external auditor including the annual audit letter.

Selection & Constitutional Review Committee

22. This committee is responsible for reviewing and considering amendments to the constitution, and considers the representation for committees and outside bodies. Between May 2011 and April 2012 the committee met on four occasions. Mostly its work was routine. It did adopt new contract standing order procedures about the buying-in of external expertise (consultants) following amendments that resulted from audit and past Overview and Scrutiny Committee reviews. It also adopted the principle of providing the Audit Committee with the ability to co-opt a non-elected representative to its committee should it wish to do so.

Management Team

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

Areas of significance governance for review

- 24. Last year two areas were highlighted as warranting further attention (risk management approach, and the principles of good partnership governance in expectation of more partnership working emerging). On both the Audit Committee has taken the work forward and the work will be completed this year. Already the Cabinet has approved a new policy for partnership governance principles; the final stage is for this committee to review arrangements for the more significant partnerships against the principles it recommended for approval.
- 25. Only one new area is highlighted resulting from a ‘limited assurance’ conclusion from the Head of the Audit Partnership, who considers it merits inclusion in this statement. This concerns some aspects of procedural compliance with the council’s arrangements under the Data Protection Act. It is the subject of an agreed action plan and progress on this will be reported to the Audit Committee.

Conclusion

- 26. Governance arrangements were under regular review and remain strong. 2011/2012 saw a new council, following the May 2011 election, and a new Cabinet long-term policy framework to help steer the council’s strategic work. Good progress was made in carrying out several importance business plan projects, following work in the previous year to consult and decide on priorities. Financial management was sound and good progress made on achieving the budget and delivering the savings needed. Financial governance continues to receive good endorsement from the council’s external auditor. Progress was made on the two governance matters highlighted for further review in last year’s annual statement (risk management, and governance arrangements for partnership working).
- 27. In conclusion governance arrangements are appropriate and effective, and responsive to change and adaptation as circumstances dictate.

Signed

Leader of the Council

Chief Executive

Contact: Paul Naylor, Deputy Chief Executive
Email: paul.naylor@ashford.gov.uk

Agenda Item No: 9
Report To: **AUDIT COMMITTEE**



Date: **25 June 2012**

Report Title: **External Auditor's Update**

Report Author: Debbie Moorhouse, Audit Manager, Audit Commission
Paul Naylor, Deputy Chief Executive (covering summary)

Summary:

The external auditor's report (from the Audit Commission) provides information about its audit work over the past year, the progress with the outsourcing of its work to the private sector, and a number of matters of other relevance and interest.

Further background

a) 2011/2012 financial statements

These are being finalised by the Finance Manager for sign-off by myself, as Section 151 Officer, by the end of June (regulations now require members' approval post audit of the accounts). The Audit Committee will receive the accounts and the audit opinion for approval at its September meeting.

b) Outsourcing of the Audit Commission

As explained in the auditor's report the council had the opportunity of meeting the proposed new external auditor (Grant Thornton UK) in May. Through the chairman the council has responded to the consultation, stating there are no reasons for the council to object to the proposed appointment – see attached letter. We look forward to meeting the 'new' team in October or November, though we are pleased that most of the current audit team will continue to provide the audit service for at least the next year.

Fees for the next five years are effectively fixed and achieve a 40% reduction on budgeted costs.

c) Capital Finance system proposed changes

Officers will report the implications of changes to regulations to the next meeting of the committee.

d) Pay policy statement

As required by regulations the cabinet approved a pay policy statement for 2012/2013 in March, following recommendations by the Head of Personnel and Development after work completed by a mini-PAG on this issue.

Key Decision:	No
Affected Wards:	None specifically
Recommendations:	The Audit Committee is asked to note the external auditor's update.
Policy Overview:	The work of the external auditor is a statutory requirement and provides comment and assurance on matters of financial governance and internal control to the council.
Financial Implications:	None specifically arising from this report. However, members are asked to note the 40% fee reduction arising from the outsourcing of the commission's work.
Other Material Implications:	None
Contacts:	Paul.naylor@ashford.gov.uk – Tel: (01233) 330436

Audit Committee update

Ashford Borough Council

May 2012

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.

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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.
- 4 Finally, please also remember to visit our website (www.audit-commission.gov.uk) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Andy Mack

District Auditor

23 May 2012

Progress report

2011/12 audit

5 In our March 2012 audit progress update, we set out our audit approach to our work in respect of the financial statements, VFM conclusion and grant certification.

6 Further detail of our risk assessment is included in the 2011/12 audit plan, presented to the March 2012 committee.

7 As part of our pre-statements work we have assessed the control environment operating at the Authority and conclude good arrangements are in place. We have not identified any issues to report to the Audit Committee.

8 We have also documented and walked through the following material information systems operated at the Authority:

- General Ledger;
- Purchase Ledger;
- Sales Ledger;
- Capital Accounting;
- Payroll;
- Treasury Management;
- Housing Rents;
- Housing Benefits;
- Council Tax and NNDR; and
- Car Parking income.

9 We have considered the design and operation of key controls and concluded they are appropriate.

10 Before our post-statement audit visit in July 2012, we will be finalising our controls and early substantive testing.

Update on the externalisation of the Audit Practice

11 The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

12 The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board confirmed the 'interim' auditor appointments for the first five months of 2012/13 on 22 March 2012.
- The Commission wrote to all audited bodies on or shortly after 23 April 2012 to set out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.
- To support the consultation process, the Commission has arranged a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings is to give audited bodies in each area an opportunity to meet the new firm

proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

13 The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

14 Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

15 Further details are available on the Commission's website. We will continue to keep you updated on developments.

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

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and 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

Annual fraud and corruption survey 2011/12

17 On 2 April 2012 the Audit Commission issued its annual survey to collect information regarding all detected fraud and corruption for the 2011/12 financial year.

18 The electronic survey is open for audited bodies to complete and submit between 2 April 2012 and 11 May 2012.

National Fraud Initiative consultation

19 The Audit Commission has recently consulted on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

20 The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

21 The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11.

22 The consultation closed on 23 March 2012 and the final work programme and scales of fees will be published in May 2012.

Local government capital finance system

23 In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

24 A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

25 DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

26 DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

Accounting for HRA Self Financing

27 In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012.

Openness and accountability in local pay

28 On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

29 For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees?

30 The statement must be:

- approved by full Council; and
- published on its website.

Contact details

31 If you would like further information on any items in this briefing, please feel free to contact either your District Auditor or Audit Manager.

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

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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.



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Marcine Waterman
Director, Audit Policy and Regulation
Audit Commission
1st Floor, Millbank Tower, Millbank
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SW1P 4HQ

Date: 11 May 2012

Dear Marcine

CONSULTATION ON AUDITOR APPOINTMENT

As chairman of the council's Audit Committee I am writing in response to your letter of 16 April to the chief executive explaining your proposals for auditor appointments. I have received a full briefing from officers.

Although the council would have much preferred to have reached its own decision about appointing its external auditor, it understands that opportunity will come later now legislation is programmed. However, the council has no reason not to accept the recommendation and has nothing to draw to the Commission's attention that would affect independence.

The council looks forward to working with Grant Thornton later in the year and in this respect I thank the Commission and Grant Thornton UK for the opportunity for the council's senior officers to attend the recent introductory meeting.

Yours sincerely

A handwritten signature in black ink that reads 'Paul Clokie'.

Councillor Paul Clokie
Chairman of the Audit Committee

Agenda Item No **10**

Report To: **AUDIT COMMITTEE**

Date: **25th June 2012**

Report Title: **Audit Commission's Fees 2012/13**

Report Author: Deputy Chief Executive

<p>Summary:</p>	<p>A significant reduction in external audit fees for this and the next four years follows on from the outsourcing of the audit commission's local government and other public sector work. This report provides the details of the new fee scales for the council.</p>
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Key Decision: Not applicable

Affected Wards None specifically

Recommendation: **The Audit Committee is recommended to note the report.**

Policy Overview: External audit is a statutory requirement and provides assurance to the council and its taxpayers and residents about financial governance and value for money.

Financial Implications: 40% reduction in fees, with these generally fixed for five years. A saving of £58,000 against the 2012/2013 budget and cumulative savings of £290,000 over the five year period of the MTFP.

Other material implications: From 1 November the private firm, Grant Thornton UK LLP will take on a five year contract for work let by the Audit Commission, which remains until its abolition once legislation is passed and a timetable set.

Background papers Audit Commission's 2012/2013 Fee Scale Report

Contact: Paul.naylor@ashford.gov.uk

Report Title: Audit Commission's Fees 2012/13

Purpose of Report

1. To inform the committee of the Audit Commission's fee scale for 2012/2013 and the following four years.

Background

2. Following consultation, the Audit Commission has approved the work programme and scales of audit fees for the audit of the accounts of larger local government bodies for 2012/13.
3. The Commission has outsourced the work of its in-house audit practice and on 6 March 2012 officially confirmed it has awarded five-year audit contracts to four private firms. For this council the external audit will be carried out by Grant Thornton UK from 1 November 2012.
4. Through the Commission's unique bulk purchasing power, it has secured significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, the Commission will pass on reductions of up to 40 per cent in audit fees for local government bodies. As a result, councils and other local government bodies are expected to save over £32 million a year, amounting to £161 million over the length of the contracts.
5. The Commission's full report is available to view from the link within the footnote¹, alongside a breakdown of the fees for individual bodies and a summary of the consultation feedback.
6. Following consultation, the work programme and fee scales for 2012/13 were confirmed for audits of local government, fire, police and health bodies. The Audit Commission has also introduced composite indicative fees for grant certification work, again with 40% reductions on typical costs.

Scale fees

7. The combination of outsourcing the Audit Commission's in-house Audit Practice and internal efficiency savings means that the Commission is able to pass on significant reductions in audit fees this year to audited bodies. These lower fees are **fixed for five years irrespective of inflation**, and help public bodies at a time when budgets are under pressure.
8. Organisations can compare their fees with similar and neighbouring bodies using the Commission's audit fee comparator tool².

Audit of small bodies (eg. parish and town councils)

¹ Audit Commission's 2012/2013 fee scale report: http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/201213wpsof_lg.pdf

² Audit Commission's audit fee comparator tool: see Paragraph 5 in the above link.

9. Past and present information about the audit of 'small bodies' is available from the Commission's dedicated small bodies' (local parish councils) webpage³. Typically, smaller bodies receive a limited assurance audit, unless turnover exceeds £200,000 (where some greater audit testing is needed) or when parish or town councils elect to have an intermediate limited assurance. In these cases fees are agreed on a case-by-case basis.
10. Of benefit to several parish councils locally is the Commission's decision to increase the income or expenditure threshold where no audit fee is payable. A £10,000 threshold now applies (previously £1,000).
11. For all others, scale fees are reduced on average by 30%.

Financial implications

12. Fee rates for individual councils were announced in April and amount to significant savings for local authorities. Furthermore, the Audit Commission will bear the cost of inflation over the period of the outsourced contracts (2012/2013 – 2016/2017). Fee rates use 2011/2012 assumptions as the basis, and may only vary if the local audit manager considers an audited body's risks are greater or lesser than the risk assumption built into the fee-scale starting point.
13. Composite fees now apply for grant claims work; in the past councils were charged an hourly rate and paid according to length of time needed for the grant audit. Fees assume a lower number of grant claims, as increasingly government grants have been allocated as 'un-ringfenced' and fewer claims, therefore, need external auditor verification. Furthermore, the composite fees build in a 40% fee reduction.
14. Implications for the council's budget and MTFP projection are summarised overleaf and amounts to good news financially.
15. As mentioned in the external auditor's progress report (Item 9) there will be opportunities for members to meet with Grant Thornton UK and the external audit team for Ashford from some after September 2012 and before 1 November when its contract is due to commence.

Audit Fees (£s)

Financial Year	Function	Actual / Accrued Fee	Budget	Savings
2011/12	Main Audit Fee	120,051	152,660	(32,609.00)
	Grant Certification	22,082	28,990	(6,907.75)
		142,133	181,650	(39,516.75)

³ Audit Commission Fee Scales for small audited bodies (inc parish councils): <http://www.audit-commission.gov.uk/audit-regime/audit-fees/pages/smallbodiesfees06071112.aspx>

Above saving
now in the
2011/2012
outturn

Financial Year	Function	Proposed Fee	Budget	Savings
2012/13	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2013/14	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2014/15	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2015/16	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2016/17	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
Five-year saving	Total	£459,930	£750,200	(£290,270)

Contact: paul.naylor@ashford.gov.uk

Agenda Item No: 11
Report To: **AUDIT COMMITTEE**



Date: **25 JUNE 2012**

Report Title: Compliance with International Standards of Auditing (UK and Ireland)

Report Author: Brian Parsons – Head of Audit Partnership

Summary:

In the context of the International Standards on Auditing and the current work on the Council's accounts for 2011/12, the external auditors require an understanding of how those charged with governance (the Audit Committee):

- exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council
- gain assurance that all relevant laws and regulations have been complied with,

And, whether the Committee is aware of any actual or potential litigation or claims that would affect the financial statements,

And, whether the Committee has carried out a preliminary assessment of the going concern assumption and if so has identified any events which may cast significant doubt on the Authority's ability to continue as a going concern.

The Audit Committee need to consider and agree a letter to the external auditors which provides assurances in the areas concerned.

Key Decision: NO

Affected Wards: Not applicable

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

Consider and agree the contents of a letter to the Audit Commission to provide assurance in respect of:

- **the risk of fraud**
- **management processes for reporting fraud and potential breaches of internal control**
- **potential litigation or claims**
- **the Authority as a going concern**

Policy Overview: The Council sets high standards for its governance and financial management arrangements, including those arrangements that exist to counter fraud.

Financial Implications: None (directly)
Risk Assessment YES

Equalities Impact Assessment NO

Other Material Implications: None

Background Papers: None

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

Report Title: Compliance with International Standards of Auditing (UK and Ireland)

Purpose of the Report

1. In the context of the International Standards on Auditing and the current work on the Council's accounts for 2011/12, the external auditors require an understanding of how those charged with governance (the Audit Committee):
 - exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council
 - gain assurance that all relevant laws and regulations have been complied with

And, whether the Committee is aware of any actual or potential litigation or claims that would affect the financial statements,

And, whether the Committee has carried out a preliminary assessment of the going concern assumption and if so has identified any events which may cast significant doubt on the Authority's ability to continue as a going concern.

The Audit Committee needs to consider and agree a letter to the external auditors, which provides assurances in the areas concerned.

Issue to be Decided

2. The external auditors require that the Audit Committee provide assurance to meet the expectations of the International Standards on Auditing.
3. A letter has been prepared for signing by the Audit Committee Chairman. Members are asked to consider and agree the content of the letter.

Background

4. The District Auditor provided an 'Audit Committee Update' report to the meeting of the Audit Committee on 6 March 2012. The report included a statement of the assurances required by the District Auditor in relation to the auditing standards.
5. The requirements are shown below.

Assurances for 2011/12 audit opinion work - The District Auditor's requirements

Understanding how the Audit Committee gain 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 behaviour (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

6. A letter setting out the Council's draft response, for the Committee's consideration and a draft completed questionnaire relating to fraud are attached at Appendix 1.

Risk Assessment

7. A failure to provide the District Auditor with the necessary assurances could compromise the audit of the accounts for 2011/12.

Other Options Considered

8. The external auditors require a statement from the Chair of the Audit Committee. There is no alternative action.

Portfolio Holder's Views

9.

10.

Contact: Brian Parsons Tel: 01233 330442

Email: brian.parsons@ashford.gov.uk

Cllr Paul Clokie

Mr Andy Mack
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Ask For: Cllr Paul Clokie
Email:
Direct Line:

Date: 25 June 2012

Dear Andy

COMPLIANCE WITH INTERNATIONAL AUDIT STANDARDS (UK AND IRELAND)

I refer to your 'Audit Committee Update' which was provided to the meeting of the Audit Committee on 6 March 2012.

I have set out below the Audit Committee's views in relation to the specific areas that you have raised.

In relation to the oversight of fraud:

The Committee is satisfied that:

- The financial statements are not materially mis-stated due to fraud
- There are adequate arrangements for identifying and responding to risks of fraud in the organisation
- There are adequate arrangements in place to communicate to employees the Council's views on business practice and ethical behaviour, and that
- There are adequate arrangements in place to ensure communication to those charged with governance the processes for identifying and responding to fraud.

At six monthly intervals, the Audit Committee require reports on:

- Progress against the approved internal audit work programme
- Outcomes of internal audit activity, which cover internal control issues.

These reports include the main risks identified, recommendations to improve control and management actions to improve controls.

At annual intervals, the Audit Committee require officers to report on:

- The Annual Fraud Report - setting out the anti-fraud work carried out by the Investigation Team in relation to Benefits, Council Tax, Housing Tenancies, and other areas, as well as providing information on counter fraud work, including the training programme provided to staff and to Members.
- Internal Audit's annual report, including the Head of Internal Audit's opinion on the adequacy of the Council's control environment, and including summaries of the results of internal audit project work (including fraud and irregularities)
- The annual internal audit work programme for approval.
- The Strategic Risk Register
- The Annual Governance Statement
- The Annual Audit Letter and the Annual Governance Report from the Audit Commission/External Auditor

The committee is also able to request reports on any other relevant subject area where required and arrangements are in place for the Head of Internal Audit to make me aware of significant investigations or irregularities.

The Committee is not aware of any breaches of internal control during 2011/12, other than the issues which are reported in the Head of Audit Partnership's Annual Report.

The Committee gains assurance that all relevant laws and regulations have been complied with, through the work of Internal Audit, the Annual Audit Letter and Governance Report from the Audit Commission and the Council's Annual Governance Statement.

The Committee is not aware of any actual or potential litigation or claims that would affect the financial statements, other than the longstanding issues in respect of the Stour Centre, which the District Auditor is aware of.

The Committee has not carried out a preliminary assessment of the going concern assumption; however the Committee does review the Council's accounts on an annual basis and this includes consideration of the Authority's ability to continue as a going concern.

Yours sincerely

Paul Clokie
Chairman
Ashford Borough Council Audit Committee
cc: Deborah Moorhouse, Audit Manager, Audit Commission

	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?	No – other than those instances of fraud that are referred to in the report of the Investigations Officer to the Audit Committee 25 June 2012.
	<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? 	<p>Yes – Benefits and Council Tax SPD</p> <p>Yes – as above</p> <p>Yes – as above</p>
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? 	<p>Yes</p> <p>An effective Internal Audit service and an effective and proactive Investigation service.</p>
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? 	<p>Yes – through the whistle blowing process and through fraud awareness training.</p> <p>Staff are expected to report any/all aspects of fraud</p>
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? 	<p>Staff involved in Treasury Management (due to the materiality of the transactions) and Procurement.</p> <p>Staff are required to strictly follow prescribed processes which are monitored by management.</p> <p>All subject to Internal Audit review. The Audit Plan is risk based.</p>
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 	<p>No</p> <p>Staff and Councillors are required to make declarations.</p>

	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? 	<p>No</p> <p>No</p> <p>No</p> <p>No</p> <p>Yes, as stated earlier.</p>

Audit Committee - Future Meetings

Date 27/09/2012			
Publish by 19/09/12			
Reports to Management Team by 13th 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 Remediating Exceptions	PN	
5	Principles of Good Partnership Governance – Partnership Arrangements Framework	PN	
6	Corporate Performance Report (July 2012)	NC	
7	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 Remediating 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 05/03/2013			
Publish by 25/02/13			
Reports to Management Team by 21st February		Council 18/04/13	
1	Grant Thornton's Proposed Audit Plan for the 2012/2013 Audit	Gr Th	
2	Certification of Grant Claims – Annual Report	Gr Th	
3	Presentation of Financial Statements	MN	
4	Annual Governance Statement – Progress on Remedying Exceptions	PN	
5	Internal Audit Operational Plan 2013/14	BP	
6	Corporate Performance Report (January 2013)	NC	
7	Report Tracker for Future Meetings	DS	

Date 04/06/2013			
Publish by 24/05/13			
Reports to Management Team by 23rd May		Council 18/07/13	
1	Minimal/Limited Audits	BP	
2	Internal Audit Annual Report 2012/13	BP	
3	Annual Report of the Audit Committee 2011/12	BP/IC	
4	Approval of Annual Governance Statement	PN	
5	Corporate Performance Report (April 2013)	NC	
6	Report Tracker for Future Meetings	DS	

Date 24/06/2013			
Publish by 14/06/13			
Reports to Management Team by 13th June		Council 18/07/13	
1	Minimal/Limited Audits	BP	
2	Benefit Fraud Annual Report 2012/13	Jo Fox	
3	Annual Audit Fee Letter 2013/14	Gr Th (cover by PN)	
4	Compliance with International Standards for Auditing – Letter of Assurance	BP	
5	Report Tracker for Future Meetings	DS	

18/6/2012