



Audit Committee

Notice of a Meeting, to be held in Committee Room No.2 (Bad Münstereifel Room), Civic Centre, Tannery Lane, Ashford, Kent TN23 1PL on Thursday, 26th September 2013 at 7.00 pm.

The Members of this Committee are:-

Cllr. Clokie (Chairman)
Cllr. Link (Vice-Chairman)
Cllrs. Marriott, Michael, Shorter, Smith, Taylor, Yeo

NB: Under the Council's Public Participation Scheme, members of the public can submit a petition to the Cabinet 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:- To declare any interests which fall under the following categories, as explained on the attached document: | 1 |
| a) Disclosable Pecuniary Interests (DPI) | |
| b) Other Significant Interests (OSI) | |
| c) Voluntary Announcements of Other Interests | |
| See Agenda Item 2 for further details | |
| 3. Minutes – To approve the Minutes of the Meeting of this Committee held on the 27 th June 2013 | |

Part I – For Decision

4. Counterfraud Investigation Team Update
5. Statement of Accounts 2012/13 and the External Auditors' Audit Findings Report
6. Annual Governance Statement – Progress on Remediating Exceptions
7. Strategic Risk Management – Six Monthly Update and focus on Volatility of Income and MTFP



8. Internal Audit Charter

Part II – Monitoring/Information Items

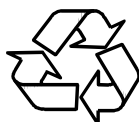
9. Internal Audit Partnership

10. Report Tracker and Future Meetings

DS/VS

18th September 2013

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Declarations of Interest (see also “Advice to Members” below)

- (a) **Disclosable Pecuniary Interests (DPI)** under the Localism Act 2011, relating to items on this agenda. The nature as well as the existence of any such interest must be declared, and the agenda item(s) to which it relates must be stated.

A Member who declares a DPI in relation to any item will need to leave the meeting for that item (unless a relevant Dispensation has been granted).

- (b) **Other Significant Interests (OSI)** under the Kent Code of Conduct as adopted by the Council on 19 July 2012, relating to items on this agenda. The nature as well as the existence of any such interest must be declared, and the agenda item(s) to which it relates must be stated.

A Member who declares an OSI in relation to any item will need to leave the meeting before the debate and vote on that item (unless a relevant Dispensation has been granted). However, prior to leaving, the Member may address the Committee in the same way that a member of the public may do so.

- (c) **Voluntary Announcements of Other Interests** not required to be disclosed under (a) and (b), i.e. announcements made for transparency reasons alone, such as:

- Membership of outside bodies that have made representations on agenda items, or
- Where a Member knows a person involved, but does not have a close association with that person, or
- Where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position.

[Note: an effect on the financial position of a Member, relative, close associate, employer, etc; OR an application made by a Member, relative, close associate, employer, etc, would both probably constitute either an OSI or in some cases a DPI].

Advice to Members on Declarations of Interest:

- (a) Government Guidance on DPI is available in DCLG’s Guide for Councillors, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5962/2193362.pdf plus the link sent out to Members at part of the Weekly Update email on the 3rd May 2013.
- (b) The Kent Code of Conduct was adopted by the Full Council on 19 July 2012, and a copy can be found in the Constitution at <http://www.ashford.gov.uk/part-5---codes-and-protocols>
- (c) If any Councillor has any doubt about the existence or nature of any DPI or OSI which he/she may have in any item on this agenda, he/she should seek advice from the Head of Legal and Democratic Services and Monitoring Officer or from other Solicitors in Legal and Democratic Services as early as possible, and in advance of the Meeting.

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **27th June 2013**

Present:

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

Cllrs. Marriott, Michael, Smith, Shorter, Taylor, Yeo.

Also Present:

Cllrs. Britcher, Chilton, Wright.

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

Steve Golding - Grant Thornton.

Prior to the commencement of the meeting the Chairman advised of a change of the order of business as per the Agenda.

56 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 5th March 2013 be approved and confirmed as a correct record.

57 Strategic Risk Review – Effective Workforce Planning

The report advised that following on from the informal meeting of the Committee in April when Members concluded that the Committee should more routinely have oversight of the individual risks on the Strategic Risk Register, a report on one of those risks had been proposed accordingly. Workforce planning was one of the Council's strategic risks and the report provided an opportunity to discuss its background and the mitigation plan. The plan focused on two issues: - succession planning and developing a strategic response to this need; and building a greater generic method operation to deliver important 'Best Service Resources Allow' business plan priorities.

The Head of Personnel & Development advised that the Council had recognised for a while that the age profile of the organisation meant there was a high risk of service continuity disruption from turnover due to retirement in the short to medium term. As a result Management Team had put in place a robust leadership development programme to enable succession planning for a number of future

management/leadership roles. There was also an issue of knowledge and passing that on to key posts/project leaders. Where there were known imminent retirements, opportunities for restructuring and grouping teams together, flexible management across teams to cover certain projects and generic working practices were all being looked at. Generic working and the “eyes and ears” idea was something that was intended to be rolled out across the Authority as opportunities arose.

The Chairman opened the item up to questions/comments and the following responses were given: -

- The state retirement age did not have much bearing on the Council as there was no longer a standard retirement age and people could work for as long as they wished. It would also not stop people retiring early if they wanted to.
- Personnel and Development (P&D) had spoken to Heads of Service to identify the areas most at risk and focused on the most important training and development needs first.
- Where changes to Services had been made it was difficult to compare ‘like for like’ because the make up of the new teams was very different, however the effectiveness of all re-organisations and the new arrangements would be the subject of future reviews. Members would have a role to play in those reviews.
- There was now a centralised training budget with the aim of maximising the benefit of a relatively small pot. The system had worked well but approaching a time where they wanted to make a concerted effort to up skill people, the budget would not go far. If common themes emerged P&D would try to deliver training internally to keep the costs down. Benchmarking the spend on training against other Councils to assess value for money could be done, as could a days per annum figure for training by grade, but the outcomes would of course be relative to budgets at other Councils.
- In terms of the current risk score of 4/3 and the target of 3/2, the Head of Personnel & Development said they were taking the issue seriously and she was confident of achieving the target.
- All Officers had a notice period and generally individuals who were retiring gave even more notice than that. Members expressed some concern that some of the notice periods for more senior members of staff were not long enough.

Resolved:

That the Committee note the current position with the Workforce Planning Strategic Risk.

58 Internal Audit Annual Report 2012/13

The report outlined the work of the Internal Audit Team over the financial year 2012/13 and the opinion of the Head of Internal Audit Partnership in relation to the Council's control environment in the context of the Annual Governance Statement. It also asked the Committee to decide whether the outcomes of the Internal Audit work and the other matters referred to in the report provided evidence of a substantial level of internal control within the Authority and of an effective internal audit, which would support the findings and conclusions shown in the Annual Governance Statement for 2012/13. The Head of Internal Audit Partnership introduced the report and explained that the recommendations had to be written in a certain way to meet the requirements of the Public Sector Internal Audit Standards (PSIAS).

The Chairman opened the item up to the Committee and the following responses were given to questions/comments: -

- PSIAS required an external assessment to be carried out to ensure that Internal Audit complied with those standards and that reliance could be placed on it. This had to happen once every five years but because Ashford was part of an assessment of the Internal Audit Partnership the cost of the assessment could be spread over the four Authorities.
- With regard to the Car Parking Enforcement audit, a Member said he hoped the performance benchmarking across Authorities did not encourage parking attendants to be over-zealous. He also asked about incorrect or misleading signage. The Audit Partnership Manager confirmed that part of the audit had included a review of the correctness of signage. The Deputy Chief Executive said he would also check this point.
- In terms of whistleblowing and similar issues, it was recognised that some of the policies were now quite old and had tended to be reviewed when issues arose. The existing whistleblowing policy was considered pretty sound but there was a need to ensure it still met best practice requirements. A report on that and other 'fraud type' policies would be coming to the September meeting. In terms of other policies such as anti fraud and corruption and money laundering, the objectives had not changed so they were still valid. Consideration had been given to suggesting a regular review period, but the key point to ensure was that they were well publicised and staff were aware of them. A Member said that rather than reviewing the policies themselves it was more important to ensure that the Council was compliant with them and that they were easily accessible and understood by staff. How far could the Audit Committee or Internal Audit go to gain assurance on these points? The Head of Internal Audit Partnership said when these policies were agreed there would be a need to build in a process for ongoing monitoring and publicity although that was not something they would generally do as auditors. Internal Audit would instead carry out periodic compliance audit reviews.
- With regard to the CCTV/Telescan audit seven of the nine recommendations had been agreed with and would be implemented. The Audit Partnership

Manager explained that the other two recommendations were low risk items therefore they were happy to accept that the Manager wanted to accept that low level risk. If Internal Audit felt that these were significant risks there would have been further dialogue.

- There had been some inconsistency of application against the scheme set out by Members for Ward Member Grants. The aim of highlighting this via audit recommendations was to help to ensure Members complied with scheme guidance. If the guidance was too onerous it should be reviewed. This was a new scheme and as it entered its second year the funds were increasing and the new scheme rules were being refined to be more relevant. This would be an ongoing process.
- The Portfolio Holder said he fully endorsed the finding under the Members Allowances Audit that the Members ICT Allowance needed to be used appropriately and in accordance with the provisions of the scheme.

Resolved:

- That**
- (i) the Head of Internal Audit Partnership's opinion that substantial reliance can be placed on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control be noted.**
 - (ii) the results of the work of the Internal Audit team over the period April 2012 to March 2013 as shown in Appendix A to the report be noted and this is the prime evidence source for the Head of Internal Audit Partnership's opinion.**
 - (iii) it be agreed that the summary of the work and the other matters referred to in the report supports 'the opinion' and that the report can be used to inform the Annual Governance Statement for 2012/13.**
 - (iv) the improvements in control that occur as a result of the audit process be noted.**
 - (v) the contents of the report provide evidence of an effective internal audit.**

59 Audit Committee Annual Report 2012/13

The report set out the Annual Report of the Audit Committee for 2012/13 to be submitted to Full Council.

The Committee agreed to add the establishment of the two new Trading Companies to the 'Future Challenges' section of the report and a minor typographical change was suggested under 'Areas for Development'. It was also agreed that from next year the report should include a Chairman's foreword.

The Committee considered that following Full Council the document should be made available to all Members as required reading in case they were ever needed to substitute at an Audit Committee Meeting and that it was provided as a matter of course to any future new Members of the Committee.

Resolved:

That subject to the comments made above, the format and content of the Annual Audit Committee report be agreed and the Chairman provides the report to a Meeting of the Full Council to demonstrate how the Committee has discharged its duties.

60 Annual Governance Statement 2012/13

The report explained that each year the Council must produce and approve an Annual Governance Statement that summarised the approach to governance, showed how its approach fulfilled the principles for good corporate governance in the public sector, and drew conclusions about the effectiveness of the Council's governance arrangements. The Statement would be published alongside the Council's formal audited financial statements which would be considered by the Committee in September. The Statement was submitted for the Audit Committee to approve on behalf of the Council. The format of this year's Statement had changed in an attempt to aid understanding and highlight key points and was designed to be more personal to Ashford Borough Council including, for the first time, an introduction from the Leader. The Deputy Chief Executive advised that five areas of significance for ongoing review had been identified and these were highlighted within the report.

The Chairman said he would like the Committee to be kept informed of any changes between now and when the Statement was signed off by the Leader and Chief Executive.

Resolved:

That the 2012/13 Annual Governance Statement be approved and signed by the Leader and Chief Executive as required by regulations.

61 Governance and Risk – Grant Thornton's National Research Reports

The report advised that at the last formal meeting of the Committee in March, the Council's External Auditors (Grant Thornton) had introduced two national reports they had issued that were of particular relevance and interest to the Committee and the Council. These were subsequently considered at an informal meeting in April where the general feeling had been that the Committee could be more proactive with regard to risk. Summaries of the reports and the conclusions from the informal meeting were included within the papers. The Committee was now being asked to endorse a number of actions designed to further evolve both the Committee's role in governance and the Council's arrangements more generally.

Members asked about the Medium Term Financial Plan (MTFP) and the role Members in general had to play. In the past there had been a MTFP Task Group but the monitoring role now appeared to be solely undertaken by Cabinet Members. Was there a role for this Committee? The Cabinet Member said the direction of MTFP and budget monitoring reports was something that was under discussion. The Head of Internal Audit Partnership said that in terms of risk an Audit Committee should seek assurance that this was being dealt with but it would not normally routinely receive budget monitoring reports and get too bogged down with the detail. If Members were unhappy with the overall process there were always opportunities to ask the Officers to report to the Committee. Mr Golding said that in terms of External Audit, they looked at strategic financial planning and there would be a report to the September Committee on the financial resilience of the Authority, so that should help provide some assurance from a third party.

The Deputy Chief Executive said that the Strategic Risk Register included a risk on 'Volatility of Income' and that could perhaps be expanded to include the MTFP and be a report to the next meeting.

In response to a question the Deputy Chief Executive said that following the "Towards a Tipping Point" national report, the Council had undertaken a self assessment of its current position related to a number of financial issues. Borrowing, for example, had been set at an 'Amber' level because they had to take a long term view in light of issues such as HRA debt, interest rates, notional depreciation etc. In each year's budget an additional £500k was allowed for borrowing, which was in essence unsupported, and a decision had been taken to use that for the next five years to deal with a growing backlog of property maintenance (repairs and renewals).

In terms of risk management more generally a Member said he had concerns that the MFTP seemed to be based on assumptions and he wondered who was monitoring those assumptions. Should there be regular reports back to the Committee? The Deputy Chief Executive said that as Section 151 Officer he had professional and statutory obligations to ensure that all Members understood risks and the dangers that ignoring those risks may cause. It was his duty to advise Members in such cases and it was a role he took very seriously.

Recommended:

That the conclusions set out in the table below be supported and the various actions, which respond to issues raised in the Council's External Auditor's national research projects on governance and risk, be recommended to Council.

Issue	Conclusion	Action
Question of non-elected member(s) representation on	Members concluded that this question should be re-visited after the 2015 election, and therefore by a new	No action recommended at this time

the Committee	administration	
Aligning Audit Committee work and Overview and Scrutiny work to support Council's priorities	Accepted the Committee should develop its role to further support the Council achieving its strategic objectives – see the next point concerning risk management. Also considered there should be a discussion with the chairman of the Overview and Scrutiny Committee to establish the potential for stronger alignment of the two Committees' work.	The chairs of this committee and the Overview and Scrutiny Committee have since met and there was agreement for a stronger alignment of work to support helping the council to achieve its overall priorities. For the O&S Committee it was viewed by its Chairman as providing welcome opportunities for productive reviews for the benefit of Members generally. Discussion to be held with the Leader and further ideas shaped.
Audit Committee's role in strategic risk management	Agreed the Committee should more frequently discuss the position regarding the identified strategic risks, with the various risk owners.	This action is starting with this Committee, and subject to review it would be the intention for each meeting to consider a specific risk(s).
Medium Term Financial Plan Risk	In view of the 'Tipping Point' report, Members felt it necessary to review the strategic risks concerning the medium term financial plan.	The Deputy Chief Executive was asked to bring forward a report to the next meeting.
Annual Governance Statement	Its presentation needed to be addressed, as well as ensuring it adequately reflected governance matters needing attention.	These points have been addressed in the draft annual governance statement included on the agenda for this meeting.
Annual Report	Members concluded the Council should produce an annual report that is web-enabled.	This is to be taken forward, given also the Leader's similar commitment for such a report.

<p>Developing members' awareness</p>	<p>Concluded that pre-Committee briefings should take place routinely before each Audit Committee, to provide opportunities for briefings and discussion of topical matters.</p> <p>It was also concluded that the Head of the Audit Partnership should circulate a 'skills matrix' to Committee Members to help determine Members' needs.</p>	<p>A programme is being developed.</p> <p>The Head of Internal Audit Partnership has this in hand.</p>
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62 Local Audit and Accountability Bill

The information report advised that in May the Government had introduced its Local Audit and Accountability Bill that had now had its second reading in the House of Lords. A summary of the Bill from the Local Government Association (LGA), including its own views on behalf of LGA members, was included with the report. Among other things the Bill would bring about the final closedown of the Audit Commission and introduce the requirement that Councils must then procure their own external audit including the requirement for an independent (non-elected) panel to make recommendations on this to the Council. The Bill also made other provisions that tightened the Council Tax referendum principles and provided the Secretary of State with an ability to determine if a Council's publicity was contravening a publicity code (the Secretary of State was particularly concerned about some Councils competing with local newspapers).

Resolved:

That the report be received and noted.

63 Grant Thornton's Audit Committee Update

The report brought the Committee up to date on Grant Thornton's progress in delivering their responsibilities as the Council's External Auditors. Mr Golding explained that the audit of the Council's financial statements would begin the following week and there would be an update on that to the September Meeting of the Committee.

Resolved:

That the report be received and noted.

64 Report Tracker and Future Meetings

Resolved:

That subject to the additional items discussed during the Meeting, the report be received and noted.

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Agenda Item No: 4
Report To: AUDIT COMMITTEE
Date: 26 SEPTEMBER 2013
Report Title: Fraud Investigation Team



Report Author: Peter Purcell – Revenues & Benefits Manager
Hannah Davies – Acting Investigation and Visiting Manager

Summary:	This is an update to the report of 5 March 2013 advising of a number of factors influencing the creation of the Corporate Fraud Team. For several reasons the report recommends deferring creating a stand-alone team with a wider corporate counter fraud focus. Most significantly is the ongoing delay to the government's programme for the introduction of Universal Credit. The report recommends a further review in 2014.
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Key Decision: No

Affected Wards: None

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

1. Consider the conclusions from the report that suggest the move to create a corporate counter fraud team should be deferred.
2. Subject to the above agree to defer this matter pending a further review and report back to the committee during 2014.
3. Note the performance figures provided.

Policy Overview: The creation by the Government of a 'single fraud investigation service' to handle the investigation of social security, tax credits and Universal Credit claims is delayed. The implementation of Universal Credit is also not at the pace anticipated and therefore a review of the date for the creation of a Corporate Fraud Team is appropriate.

Financial Implications: This report is not seeking a decision over the financial impacts at this stage. These need more consideration as news of the government's transition to Universal Credit and its grant impacts becomes clearer. The report advises about funding and finances from 2014/2015.

Risk Assessment This was addressed in the report of 5 March 2013.

Contacts peter.purcell@ashford.gov.uk
Hannah.davies@ashford.gov.uk

Report Title: Fraud Investigation Team

Background

1. At the Audit Committee on 5 March 2013 the then Investigation and Visiting Manager (Jo Fox) presented a report entitled "The Future of the Fraud Investigation and Visiting Team". In the report the reasons for reviewing the Team were detailed and an analysis of options was provided.
2. The report recommended that during the financial year 2013/14 the Investigation Team should move from being part of the Revenues & Benefits operational team to a corporate, stand alone, Investigation Team but maintaining reporting lines to the S151 Officer (DCX). This change had the full support of the management team also.
3. Members of this Committee supported the report and resolved that the change should take place from April 2014.
4. However there are now a number of factors that support a delay and the need for a further review next year:
 - The author of the previous report (Jo Fox) was promoted internally from the position of Investigation and Visiting Manager to become Assistant Health, Parking & Community Safety Manager from 5 August 2013. Although her acting successor Hannah Davies is an experienced fraud investigator working on most of the team's significant case work, she needs time to get fully acquainted with her new duties and responsibilities.
 - There has been little direct feedback from the Department of Works and Pensions (DWP) concerning the timing of creating the new Single Fraud Investigation Service (SFIS) and the later date implied in the report of 5 March may be even later than anticipated.
 - The council's bid for funding from the Government relating to Tenancy Fraud investigations (reported in March) was unsuccessful (it is evident that government targeted its funding at London Boroughs and metropolitan councils, where impacts would be greater) thereby leaving the financing of local tenancy fraud work dependent on ongoing support from the housing revenue account. A number of the local Housing Associations (that may have been another source of income) have indicated that they had no funds to finance this initiative.
 - The Government's June 2013 spending review cut the Communities and Local Government's departmental budget by a further 10%. A provisional finance settlement for the next two years is now the subject of consultation with local authorities, and the numbers suggest very substantial cuts in general government grant support. Government also aims to freeze council tax for the next two financial years (2014/15 and 2015/16), although decisions about this will be taken locally by this council. All in all the council must review service costs to realise any additional savings required.

- Even more significantly the implementation of Universal Credit (UC) is not proceeding at the pace that was originally anticipated although the DWP have not moved on the final implementation date of 2017. This may mean that the bulk of the migration of Housing Benefit (HB) claimants to UC may not take place until 2016/17, therefore there may be more HB Fraud work (and funding) in 2014/15 & 2015/16. To support this, the welfare minister Lord Freud, wrote to all local authorities on 1 August 2013 confirming that the level of housing benefit administration funding would be maintained to manage full HB administration for 2014/15. This suggests delay to setting up the SFIS and points to the council needing to maintain its focus on housing benefit fraud during 2014/2015.
- The Fraud Team will remain available for Corporate Fraud work as and when required as they always have been within the Revenues and Benefits Service.

Summary & Recommendation

5. The factors above indicate that the creation of a stand alone corporate counter fraud investigation team should be deferred. However members should be aware the management team maintains that the principle of evolving the current arrangement to a corporate counter fraud Team is still its preferred option (as in the report of 5 March 2013).
6. It is therefore recommended that the creation of a Corporate Fraud Investigation Team is deferred pending a further review during 2014.
7. Meanwhile, the current team will remain as part of the Revenues & Benefits Service and the responsibility of the Revenues & Benefits Manager. However in regard to any future corporate fraud investigations that take place, the Senior Investigation & Visiting Manager (and acting team manager) will adopt a direct reporting line to the S151 Officer (the DCX).
8. The Revenues & Benefits Manager and the Senior Investigation & Visiting Manager will submit a further report in 2014 to update Members of the progress of the factors mentioned in this report with conclusions about the timing for the creation of a corporate counter fraud team.
9. The full Annual Fraud Report covering 2012/13 will be submitted to the next meeting although **Appendix A** of this report contains a summary of the most relevant data.

Contact: Email:	Peter Purcell or Hannah Davies Peter.Purcell@ashford.gov.uk Hannah.Davies@ashford.gov.uk
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Performance figures for the Fraud Investigation Team**Five months (April 2013 – August 2013)**

Prosecutions	5
Cautions	3
Administrative Penalties	2
Summons	1
Tenancy Fraud - Properties recovered	3
Council Tax Fines	0
Successful Outcomes ¹	12

'Weekly Incorrect Benefit Saving' £43,195.52

This is the notional amount of saving achieved using the DWP's former measure. Essentially it measures the cost saved of benefit continuing to be paid without any action for a period of 32 weeks (DWP's assessed period).

Performance figures for the Fraud Investigation Team**Financial Year April 2012 – March 2013**

Prosecutions	7
Cautions	5
Administrative Penalties	1
Summons	5
Tenancy Fraud - Properties recovered	6
Council Tax Fines	1
Successful Outcomes ²	26
Weekly Incorrect Benefit Saving	£101,568.96

Tenancy Fraud – more detail

Investigations with a housing department interest	112	
Currently under investigation	23	
Cases noted where duty has been discharged ³		4

¹ The successful outcome figures include: where a fraud was found but no sanction given (public interest normally), overpayments, where our housing duty has been discharged, and where Single Person Discount's have been cancelled.

² See point 1

³ This being where we have worked with the housing options team and discharged our duty to house as the information provided has been fraudulent / incorrect / changed and not updated

Agenda Item No: 5
Report To: **AUDIT COMMITTEE**
Date: **26 SEPTEMBER 2013**



Report Title: **STATEMENT OF ACCOUNTS 2012/13 AND THE EXTERNAL AUDITOR'S AUDIT FINDINGS**

Report Author: Ben Lockwood – Finance Manager
Maria Nunn - Principal Accountant

Summary: This report presents the 2012/13 Statement of Accounts for approval.

The Auditor's Report is appended and he will be present at the meeting to introduce this and take questions. The audit has identified four primarily presentational errors as detailed in the Auditor's report with no impact on the council's financial position.

The External Auditor has issued an unqualified opinion on the accounts.

Once approved the accounts will be published with an accompanying simple summary of the key facts and outcomes for the year.

Key Decision: No

Affected Wards: All

Recommendations: **The Audit Committee resolves to:-**

- 1. consider the Appointed Auditor's Audit Findings (Appendix B)**
- 2. agree the basis upon which the accounts have been prepared (Going Concern)**
- 3. approve the audited 2012/13 Statement of Accounts (Appendix A)**
- 4. approve that the Chairman of this Committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 as approval by the Council.**
- 5. approve the Chief Financial Officer's Letter of Representation to the Appointed Auditor (Appendix C)**

Policy Overview: The 2012/13 Statement of Accounts complies with the requirement of various Codes of Practice and the Accounts and Audit regulations.

Financial Implications: The 2012/13 Statement of Accounts sets out the Council's financial position as at 31 March 2013 and movement in funds during the year.

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Maria.nunn@ashford.gov.uk – Tel: (01233) 330547

Report Title: Statement of Accounts 2012/13 and the Appointed Auditors Audit Findings

Purpose of the Report

1. Our external auditors (Grant Thornton) have completed the audit of the Council's 2012/2013 financial statements. The Accounts and Audit regulations require the accounts to be approved by this Committee and must be published by 30 September 2013.
2. Attached to this report is the External Auditor's Audit Findings report setting out his work and conclusions in respect of the accounts. The External Auditor will be present at the meeting and will wish to introduce the report and take questions.

Issue to be Decided

3. The Committee is being asked to approve the Statement of Accounts, the Chairman of this committee can sign the Accounts and approve the letter of Representation. The committee is also being asked to consider the Auditor's report including proposed changes and the one recommendation.

Background

4. The 2012/13 Statement of Accounts has been completed and with the International Financial Reporting Standards (IFRS), as set out in the Code of Practice on Local Authority Accounting in the United Kingdom and relevant Standards.
5. The Auditor has issued an unqualified opinion and has commented favourably on the further improvements made in processes and with the supporting information that has allowed for an efficient audit to be carried out.
6. The Accounts and Audit regulations require the unaudited accounts to be signed by the Chief Financial Officer (the Deputy Chief Executive) by 30 June, which was achieved, and that member approval of the audited statements must happen post-audit and before 30 September. The Audit Committee has the authority to approve the accounts on behalf of the Council.

Basis of Preparation

7. The Statement of Accounts has been prepared on a 'Going Concern' basis, in accordance with recommended accounting practice. This means, for accounting purposes, that the organisation is expected to be in existence for the medium to long term and that the Council has no intention in the foreseeable future of curtailing, materially, the extent of its operations.
8. This basis has been adopted as there are no plans to reorganise local government and no other factors exist that will materially affect the council's operations in the foreseeable future.

The Amended 2012/2013 Financial Statements

9. As stated above there were four adjustments to the statement, primarily classification errors which do not impact upon the Council's net expenditure or revenue balances. There are also a number of amendments to disclosure notes, to aid the clarity and presentation of the Accounts. These are explained from **Page 29** and **Appendix B** of the Appointed Auditor's Report.

Audit Action Plan

10. There is one recommendation in the Auditor's report to be addressed this year which is to ensure the related party declaration forms are completed annually by all Councillors. There were four declarations outstanding this year which was disappointing as it is the responsibility of all members to ensure these are returned on time. Councillors with forms outstanding are:
- Cllr Adley
 - Cllr Marion Martin
 - Cllr Wedgebury
 - Cllr Wright

Letter of Representation

11. The Deputy Chief Executive is required by the Auditor to compile a Letter of Representation, to provide further assurance to the auditors. This is appended and the Committee is asked to approve the letter.

Conclusion

12. The Audit of the 2012/13 Statement of Accounts is complete and that whilst there have been some changes most of these are mainly of a classification nature and have not affected the financial position of the Council.
13. The auditor is issuing an unqualified opinion to the statement of accounts and an unqualified 'Value for Money' conclusion.

Contact: Ben Lockwood or Maria Nunn

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ASHFORD
BOROUGH COUNCIL

Statement of Accounts

2012/13

Ashford
best placed in Britain

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Approval of the Statement of Accounts

To be inserted after approval by Committee

Explanatory Foreword

Introduction

This foreword explains the key components of the Statement of Accounts.

Local Authority accounts are subject to a number of regulatory requirements and accounting standards. This results in a complex format, which requires the reader to have a reasonable knowledge of accounting terms and presentation. Where the use of technical terms is unavoidable, an explanation is provided in the Glossary (page 79).

The Statement of Accounts

The content and format of the Statement of Accounts is prescribed in the Accounting Code of Practice, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which has approval from the Accounting Standards Board as a Code of Practice of Local Authority Accounting (The Code). The Statement of Accounts includes the Core Financial Statements and Supplementary Financial Statements along with other statutory sections.

For this year (2012/13), there have been very few changes to the Code with some changes to the disclosure of financial instruments and changes to accommodate the reform of the Housing Revenue Account.

The Core Financial Statements (page 8 to 12) comprise:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet

- Cash Flow Statement

For 2012/13, the Council has reviewed its treatment of developer contributions and decided to restate these as a grant for which the conditions have been met and, therefore, is unlikely to be repaid.

A restatement has been completed to set up a deferred receipt for the bowls centre lease.

It is felt that these adjustments are needed for compliance with the Code. Annex 1 on page 83 provides a table showing the comparative impact of the restatements.

Overview of 2012/13 Financial Results and Activity

General Fund (i.e. excluding the Housing Revenue Account)

Spending overall for the year, after income and other receipts, was below budget. Some services came in over budget, however, reflecting particular pressures mainly a result of continuing economic difficulties. During the year checking of pressures took place with corrective actions taken to contain overall spend within budget. Some pressures, for example people presenting as homeless and demands for front-office advice will continue through to 2013.

The General Fund out-turn overleaf excludes the Housing Revenue Account and, therefore, differs from the statutory presentation of the Comprehensive Income and Expenditure Statement (page 10)

The Council set its Budget Requirement at £12.4m (amount funded by Government Grant and Council Tax) with a further £0.8m levied by Parish Councils. Council tax was not increased.

As mentioned above the general economic climate presented challenges, with impacts locally in various ways, including, for example, housing benefit caseload continuing to rise and continued pressure on service income streams.

Cabinet meetings during the year (September, November, February and June) received budget-monitoring positions, including details of variances. These reports are on the Council's website.

Reserves reduced by £1.2 million, though in line with plans, mainly to support delivery of the council's priorities. During the year a reordering and reclassification of some reserves took place to allow for new pressures and risks, and provide added support to fund capital investment. Overall, revenue reserves remain at a healthy level and afford some flexibility to help with investments to support local growth.

General Fund Final Outturn 2012/13

Service	Revised Budget	Outturn to 31/03/13	Variance
	A £'000	B £'000	(B-A) £'000
Net Service Expenditure	15,540	16,009	469
Capital Charges and net interest	(2,172)	(2,570)	(398)
Levies, Grants and Precepts	1,176	1,151	(25)
Contribution to reserves	36	36	0
Net Expenditure including Parishes	14,580	14,626	46
Adjust for:			
Support Cost		(80)	(80)
Additional commuted sums		(9)	(9)
Impairment Allowance for Bad Debts		53	53
Collection Fund Surplus		(62)	(62)
Funded By:			
Government Grant	(7,255)	(7,255)	0
Council Tax	(6,481)	(6,481)	0
Parish Precepts	(844)	(844)	0
Total Financing	(14,580)	(14,580)	0
Outturn Reported	0	(43)	(43)

The Comprehensive Income and Expenditure Statement, and associated notes on page 10, includes

- the general fund outturn as detailed above
- the Housing Revenue Account income and expenditure

other notional accounting entries for capital charges, pensions and asset sales.

A reconciliation between the statutory and management accounts is included in note 5.

Housing Revenue Account (HRA)

After completing the government's housing subsidy buy-out transaction on 28 March 2012, 2012/13 was the first year under the new self-financing arrangements for Housing Revenue accounts. In February 2012 the council approved the 2012/13; this preceded the final determinations for HRA buyout and setting of final debt portfolios. Originally, a modest surplus from the transaction

was planned. However the Council borrowed more cheaply than expected, partially because of a special government borrowing discount, and partially because of market rate trends. All contributed to producing a £1m surplus. This was earmarked to HRA reserves and will contribute funds to support the HRA's long-term business plan.

Further details of the budget variances are included in the Budget monitoring reports which are available on the Councils website.

Housing Revenue Account Reform

This is the first set of accounts that have been completed since introducing HRA self-financing. Housing subsidy is no longer payable to the Government. However, the Council now has long-term HRA debt of £119.7m, following the buy-out, related to its housing stock.

Housing Revenue Account Outturn 2012/13

	Current Budget	Revised Actual to 31/03/13	Variance
	A	B	(B-A)
	£'000	£'000	£'000
Income	(22,564)	(22,640)	(77)
Supervision and Management	3,800	3,968	167
Repairs and Maintenance	3,554	3,402	(151)
New Build	217	113	(104)
Other	14,989	13,991	(999)
Net Revenue Expenditure	(4)	(1,167)	(1,163)
Capital Works - Decent Homes	4,845	4,526	(320)
<i>Capital Works financed by:</i>			0
Major Repairs Allowance (from Self Financing Determination)	(5,200)	(5,200)	-
Contribution to/(from) Major Repairs Reserve	355	674	320
Support costs greater than budget		98	98
Total Net Expenditure	(4)	(1,069)	(1,065)

The accumulated HRA reserve balance at 31 March 2013 was a surplus of £3.3m. In addition, the Major Repairs Reserve stands at £3.7m, which is available to fund the Decent Homes programme, giving a total balance for HRA Reserves of £7.0m (compared with £5.2m as at 31 March 2012). These reserves are needed to balance the HRA's longer-term business plan.

Capital Expenditure

Capital expenditure is spending on the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment and intangible assets (such as computer software) which will be used to benefit services over a number of years.

In the financial year 2012/13, the budget and outturn for the capital programme was:

Summary of Capital Spending and Financing

	£'000
General Fund Capital Expenditure	2, 538
HRA Capital Expenditure	4,557
Total Expenditure	7,095
Funding	
Capital Receipts	293
Ring-fenced capital receipts	31
Repairs and Renewals reserve	384
External Grants and Contributions	871
Developer Contributions	309
GF Revenue Contributions	672
Major Repairs Reserve	4,526
Prudential Borrowing	9
Total Funding	7,095

Treasury Management Borrowing

At 31 March 2013, the Council had long-term borrowing of £119.7m (£119.6m 2011/12). This comprised long-term loans to fund the housing subsidy buy-out payment to government, see note 21.

Investments

At 31 March 2013, the Council had investments and cash deposits of £24.3m (£24.3m 2011/12). Over the year, the Council has performed a prudent treasury management strategy focusing on lending to government bodies. This policy is being loosened as there is now less risk overall in the banking sector because of the intervention by central banks over the last year or so.

Pensions

As part of the Conditions of Employment, the Council must offer staff retirement benefits under statutory requirements. At 31 March 2012 84.5% of staff took part in the pension scheme, contributing between 5.5% and 7.5% of salary. Payments into the pension scheme, investment assets and future liabilities are held and managed by the Kent County Council Pension Fund for all contributing member authorities. For further information see note 28

Stanhope Private Finance Initiative (PFI) Project

On 17 April 2007, the PFI agreement for the regeneration of the Stanhope Estate was signed with the Chrysalis Consortium. The aim of the contract was the refurbishment of properties on the estate and associated environmental improvements. These have been

completed and the contract has moved into the housing management phase.

At the end of the contract, the properties will be handed back to the Council.

Waste and Recycling Contract

The Councils Refuse Collection and Street Cleansing Contracts expired at 31 March 2013, with the finance leases embedded into those agreements expiring concurrently which are reflected in the Balance Sheet and note 27.

During 2012 the Council carried out a tendering exercise for a new recycling and street cleaning contract to start on 1 April 2013. This was completed successfully and will bring about large recycling service improvements, and significant cost savings.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

Under Law the Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its Officers has the responsibility for the administration of those affairs. In this authority, that Officer is the Deputy Chief Executive and Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Responsibilities of the Chief Financial Officer (CFO)

As CFO the Deputy Chief Executive is responsible, in law, for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'). There is a responsibility of the CFO to observe the CIPFA statement on the role of the CFO in public service organisations.

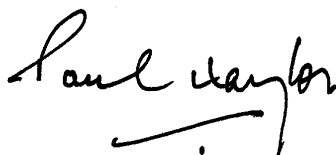
In preparing this Statement of Accounts, the CFO has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Codes of Practice.

The CFO has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts between pages 8 and 76 present a true and fair view of the financial position of Ashford Borough Council at 31 March 2013 and its income and expenditure for the year ended on that date.



Paul Naylor
Deputy Chief Executive and Chief Financial Officer
28 June 2013

Core Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/Decrease before 'Transfers to Earmarked Reserves' shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	General Fund Balance	Ear-marked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Grants Unapplied Account	Total Usable Reserves	Unusable Reserves (Note 25)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31st March 2012	(3,153)	(7,537)	(2,225)	(106)	(3,010)	(49)	(16,080)	(49,860)
<i>Movements in Reserves during 2012/13</i>								
Surplus or deficit on the provision of services	2,185		(8,097)				(5,912)	
Other Comprehensive Income & Expenditure								1,149
Total Comprehensive Income & Expenditure	2,185		(8,097)				(5,912)	1,149
Adjustments between accounting and funding basis under regulations (Note 15)	(1,307)		7,028	(608)	(674)	(553)	3,886	(3,886)
Net increase or decrease before transfers to Earmarked Reserves	878		(1,069)	(608)	(674)	(553)	(2,026)	(2,737)
Transfers to/from Earmarked Reserves (Note 11)	578	(578)					0	
Increase or decrease during 2012/13	1,456	(578)	(1,069)	(608)	(674)	(553)	(2,026)	(2,737)
Balance at 31st March 2013	(1,697)	(8,115)	(3,294)	(714)	(3,684)	(602)	(18,106)	(52,597)

Movement in Reserves Statement continued

Re-stated	General Fund Balance	Ear-marked General Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Grants Unapplied Account	Total Usable Reserves	Unusable Reserves (Note 25)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31st March 2011	(3,812)	(6,882)	(2,152)	(1,016)	(3,913)	(2,037)	(19,812)	(182,724)
<i>Movements in Reserves during 2011/12</i>								
Surplus or deficit on the provision of services	(5,185)		128,466				123,281	
Other Comprehensive Income & Expenditure								13,315
Total Comprehensive Income & Expenditure	(5,185)		128,466				123,281	13,315
Adjustments between accounting and funding basis under regulations (Note 15)	5,189		(128,539)	910	903	1,988	(119,549)	119,549
Net increase or decrease before transfers to Ear-marked Reserves	4		(73)	910	903	1,988	3,732	132,864
Transfers to/from Ear-marked Reserves (Note 11)	655	(655)					0	0
Increase or decrease during 2011/12	659	(655)	(73)	910	903	1,988	3,732	132,864
Balance at 31st March 2012	(3,153)	(7,537)	(2,225)	(106)	(3,010)	(49)	(16,080)	(49,860)

Comprehensive Income and Expenditure Statement

This statement shows the cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2011/12		re-stated		2012/13		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
10,663	(9,445)	1,218	Central services to the public	11,177	(9,666)	1,511
949	(460)	489	Cultural and related services	4,433	(734)	3,699
6,240	(1,363)	4,877	Environmental and regulatory services	7,247	(1,637)	5,610
3,707	(1,759)	1,948	Planning services	3,164	(1,965)	1,199
1,329	(2,246)	(917)	Highways and transport services	1,739	(2,592)	(853)
21,926	(24,436)	(2,510)	Local authority housing (HRA)	12,273	(26,274)	(14,001)
128,080	0	128,080	Exceptional items (HRA)	0	0	0
36,927	(35,658)	1,269	Other housing services	40,298	(39,390)	908
3,290	(641)	2,649	Corporate and democratic core	3,866	(823)	3,043
1,552	0	1,552	Non distributed costs	1,653	0	1,653
214,663	(76,008)	138,655	Cost of Services	85,850	(83,081)	2,769
		1,300	Other operating expenditure		(Note 12)	1,463
		1,389	Financing and investment income and expenditure		(Note 13)	6,193
		(18,063)	Taxation and non-specific grant income		(Note 14)	(16,337)
		123,281	(Surplus) or Deficit on Provision of Services			(5,912)
	(3,289)		Surplus or deficit on revaluation of Property, Plant and Equipment		(1,077)	
	369		Surplus or deficit on revaluation of Available-for-Sale financial Assets		51	
	16,235		Actuarial gains/losses on pension assets/liabilities		2,175	
		13,315	Other Comprehensive Income and Expenditure			1,149
		136,596	Total Comprehensive Income and Expenditure			(4,763)

Balance Sheet

The Balance Sheet shows the value as at 31 March of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched to the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use, and the second category of reserves is those that the Council is not able to use to provide services (see Note 25).

1 April 2011	31 March 2012			31 March 2013	
re-stated	re-stated		Notes	£'000	£'000
£'000	£'000				
247,710	247,375	Property, Plant & Equipment	16	249,831	
2,929	2,929	Heritage Assets	18	2,929	
69	40	Intangible Assets		155	
18,084	2,500	Long Term Investments		0	
1,671	1,703	Long Term Debtors		1,683	
270,463	254,547	Long Term Assets			254,598
13,313	18,608	Short Term Investments		19,527	
16	19	Inventories		19	
6,223	4,715	Short Term Debtors	23	4,083	
0	0	Cash and Cash Equivalents	39	5,943	
19,552	23,342	Current Assets			29,572
4,228	(1,762)	Cash and Cash Equivalents	39	0	
(10,305)	(1,501)	Short Term Borrowing		(155)	
(12,310)	(9,685)	Short Term Creditors	24	(11,500)	
(14)	(15)	Grant Receipts in Advance - Capital		(5)	
(18,401)	(12,963)	Current Liabilities			(11,660)
(195)	(608)	Long-term Provisions		(514)	
(5,951)	(119,702)	Long Term Borrowing		(119,702)	
(34,352)	(50,258)	Pension Liability	28	(53,340)	
(28,249)	(28,298)	PFI Liability	27	(28,131)	
(331)	(120)	Finance Lease Liability	26	(120)	
(69,078)	(198,986)	Long Term Liabilities			(201,807)
202,536	65,940	Net Assets			70,703
		Financing (see MiRS)			
(19,812)	(16,080)	Usable Reserves		(18,106)	
(182,724)	(49,860)	Unusable Reserves	25	(52,597)	
(202,536)	(65,940)				(70,703)

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the authority.

2011/12 re-stated £'000		2012/13 £'000
123,281	Net (surplus) or deficit on the Provision of services	(5,912)
(13,009)	Adjustment to the Net surplus or deficit on the provision of services for non-cash movements	(7,917)
1,418	Adjustment for items in the net surplus or deficit on the provision of services that are investing or financing activities	1,897
<u>111,690</u>	Net cash flows from operating activities	<u>(11,932)</u>
1,379	Investing activities	4,230
(107,079)	Financing activities	(3)
<u>5,990</u>	Net movements in year excluding non-cash items	<u>(7,705)</u>
4,228	Cash and cash equivalents at the beginning of the reporting period	(1,762)
(5,990)	Net increase or (decrease) in cash and cash equivalents	7,705
<u>(1,762)</u>	Cash and cash equivalents at the end of the reporting period	<u>5,943</u>

Notes to the Core Financial Statements

1. Accounting Policies

General Principles

The Statement of Accounts is prepared on an income and expenditure basis in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom 2012/13' and the 'Service Reporting Code of Practice 2012/13'.

1. Accounting Concepts and Conventions

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of assets.

The Going Concern basis has been selected for the preparation of these accounts based on the assumption that the Council will operate for the foreseeable future.

Qualitative characteristics are the attributes that make the information provided within this statement of accounts useful to users (IASB Framework, paragraph 24).

The IASB Framework sets out the four principal qualitative characteristics of financial statements, which have been adopted by the Code:

- understandability
- relevance
- reliability
- comparability

The Code also includes consideration of materiality as a qualitative characteristic, although the Framework considers it as a subsidiary concept of relevance.

2. Accruals of Income and Expenditure

With the exception of the Cash Flow Statement, and its Notes, and the Collection Fund, the Statement of Accounts is presented on an accruals basis. The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Where income and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet; where it is doubtful that debts will be settled, the balance of debtors is written down, and a charge made to revenue for the income that might not be collected. Notwithstanding this policy, some transactions are not accrued because they are of little value and, therefore, are not material to the understanding of these accounts.

Bills for Council Tax and Business Rates are recorded as issued at 31st March and no attempt is made to accrue for bills due but not processed at the year-end.

3. Estimation Techniques

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses, and changes in reserves. Details of where

these are used are contained in the relevant Note to the Accounts. Where a change in an estimation technique is material, an explanation is provided of the change and its effect on the results for the current period.

4. **Costs of Internal Support Services**

All costs of management and administration are fully allocated to services, including Corporate Democratic Core/Non Distributed Costs. The basis of allocation used for the main costs of management and administration are outlined below:

Cost	Basis of Allocation
Accounting and other services	Budgeted time spent by staff, as predicted by budget managers
Legal services	Actual time spent by staff, as recorded on time recording systems
Administrative Buildings	Area occupied
IT support of corporate financial systems	Actual direct costs (hardware costs etc.) plus cost of estimated staff resources
Network / PC support	Per capita
Executive Support, Call Centre, Customer Contact Centre and Printing	Actual use, as recorded by monitoring systems
Internal Audit	Per audit plan
Payroll and Personnel Costs	Per capita
Debtors and Creditors	Per transaction

Any non-material balances on management or administrative accounts at the year-end remain within service expenditure in the Comprehensive Income and Expenditure Statement.

5. **Council Tax and National Non-Domestic Rates**

The Council is a billing authority and, as such, is required to bill local residents and businesses for Council Tax and National Non-Domestic (Business) Rates. The Council collects Council Tax, on behalf of the major precepting authorities - Kent County Council, Kent Police Authority, and Kent Fire Authority, and National Non-Domestic (Business) Rates which is paid into a national pool for redistribution to all local authorities. Parishes are local precepting authorities and their precepts are included in the Demand on the Collection Fund of this Council.

These accounts only show the amount owed to/from taxpayers in respect of Council Tax demanded by this Council. Amounts owing to/from taxpayers for Council Tax for major precepting authorities are shown as net debtors or creditors on the balance sheet. Similarly, the accounts only show the net debtor or creditor in respect of the net amount of National Non-Domestic (Business) Rates received and paid over to the national pool.

The amount shown as Council Tax income in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement represents the amount of Council Tax due to this Council for the year. Where this includes an adjustment for the surplus/deficit to be taken into account in a future financial year, this adjustment is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account.

6. **Charges to Revenue**

Services, Support Services, and Trading Accounts are debited with amounts to record the cost of holding non-current assets used in the provision of services. These amounts include the annual provision for depreciation, certain revaluation gains/losses and impairment losses and the amortisation of intangible assets. The amounts are subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account so that they do not impact on the amounts required from local taxation.

Capital charges made to the Housing Revenue Account are the amounts as determined by statutory provision.

External interest payable is debited in the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement and amounts set aside from revenue for the repayment of external loans are charged to the General Fund Balance in the Movement in Reserves Statement.

7. **Revenue Expenditure Funded from Capital Under Statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a Fixed Asset. The purpose of this is to enable it to be funded from capital resources rather than being charged to the General Fund and impact upon Council Tax. These items are generally grants and expenditure on property not owned by the Council.

Such expenditure is charged to Cost of Services in the Comprehensive Income and Expenditure Statement but subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

8. **Government Grants and Contributions**

Grants received are accrued and credited to the Comprehensive Income and Expenditure Statement when the income is recognised. Revenue Grants specific to a particular service will be shown against the service expenditure line. General Revenue Grants, in the form of Revenue Support Grant and the contribution from the National Non-Domestic Rate Pool, and Capital Grants are credited and disclosed separately in the Taxation and Non-specific Grant Income line in the Comprehensive Income and Expenditure Statement.

Capital Grants and Capital Contributions will subsequently be transferred through the Movement in Reserves Statement to the Capital Adjustment Account or the Grants Unapplied Account, if expenditure has not been incurred.

If conditions have not been met, grants will be held as a creditor (Grants received in advance) on the Balance Sheet until conditions are met or grants are repaid.

9. **VAT**

VAT is accounted for separately and is not included in the Income and Expenditure Account, whether of a capital or revenue nature. Input VAT, which is not recoverable from HM Revenue and Customs, will be charged to Service Revenue Accounts, or added to capital expenditure as appropriate. The Council's partial exemption status is reviewed on an annual basis.

10. **Heritage Assets**

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. Valuations are determined by the insurance valuation, or where not available the

historical cost. Although there are no prescribed minimum periods for review, the assets will be reviewed in line with the insurance policy and material changes will be incorporated into the accounts. A de-minimis level has been set at £10,000 for heritage assets based on the method of valuation above.

11. **Assets Held for Sale (Current Assets)**

These assets have been declared surplus to the Council's operational requirements, are being actively marketed for disposal and have an estimated sale date within twelve months of the balance sheet date. They are reported on the balance sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets available for sale are not subject to depreciation.

12. **Intangible Assets**

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will benefit the Council for more than one financial year.

An intangible asset is initially measured at cost but will be revalued where the fair value of the asset differs significantly from its carrying value. The depreciable amount is amortised over its useful economic life to the relevant service line in the Comprehensive Income and Expenditure Statement but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account

13. **Investment Property**

Investment property is property (land and/or buildings) held solely to earn rental income, or for capital appreciation, or both.

Investment property is initially recognised at cost, but is subject to valuation at fair value at the end of each accounting period. Any loss or gain on revaluation is recognised in the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement but is subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account.

Depreciation is not charged against investment property.

14. **Property, plant and equipment**

14.1. **Recognition**

All expenditure on the acquisition, creation, or enhancement of these assets is capitalised on an accruals basis.

14.2. **Definition**

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services; for rental to others; or for administrative purposes, and expected to be used during more than one period.

The category is split into seven sub categories.

- Council Dwellings;
- Other Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Infrastructure Assets;
- Community Assets;
- Surplus Assets;
- Assets under Construction.

The Accounting policy for each type of asset is detailed below:

14.3. Council dwellings

These are held on the balance sheet at fair value but discounted to allow for the Existing Use Value for Social Housing (EUV-SH).

An annual valuation is carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) as at 1 April. Material changes will be reflected in the Accounts if they arise after the valuation.

14.4. Other Land and Buildings

These are held on the balance sheet at cost with revaluations happening throughout a 5 year period. All property and land will be valued at least once within the 5 year cycle.

The valuations are carried out by a qualified surveyor in accordance with the latest guidance issued by RICS on fair value for existing use, unless it is felt the property is of a specialist nature where depreciated replacement cost may be used. Items of plant that are functional to the operation of a building are included in the valuation for that building unless they of a material value and component accounting are applied (see below).

All buildings are subject to straight-line depreciation over their estimated useful life, which depends on the asset type. In accordance with recognised accounting practice, land is not depreciated.

IFRS requires the consideration of componentisation for material items of property, plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. The Council has set a minimum asset value of £1,000,000 and a component size of at least 10% of the value.

14.5. Vehicles, Plant, Furniture and Equipment

These are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.6. Infrastructure Assets

These are recognised in the balance sheet at cost and are subject to straight-line depreciation over the expected life of the asset.

14.7. Community Assets

These are defined as Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and allotments. These assets are held on the balance sheet at historic cost and are not subject to revaluation or depreciation.

14.8. Assets under Construction

This covers assets currently not yet ready for operational purposes. The Council does not depreciate nor revalue assets under construction.

14.9. Valuations

Increases in valuations are matched by credits to the Revaluation Reserve to recognise revaluation gains. However, where the increased valuation follows a previous reduction in the carrying value below its historic cost, gains would be credited to the service expenditure in the Comprehensive Income and Expenditure Statement to reverse the loss previously charged to a service.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

On revaluation, accumulated depreciation is written out.

14.10. Depreciation

Depreciation on assets with a finite useful life, in line with International Financial Reporting Standards (IAS 16), is calculated on a straight-line basis according to the following policy:

- All assets with a finite useful life are depreciated on a straight-line basis over the asset life. The life of buildings is reviewed as part of the asset revaluation. The life of vehicles, plant and equipment is generally taken to be five years, unless evidence exists to support a longer or shorter life.
- Newly acquired assets are depreciated in year one; assets in the course of construction are not depreciated until they are ready for use.

For Council Dwellings, the Code allows authorities to use the Major Repairs Allowance as a proxy for depreciation for a five year period beginning in 2012/13. Council Dwellings are revalued annually. Other HRA land and property are valued as above.

14.11. Impairment of Non-current Assets

A review for impairment of a non-current asset, whether carried at historical cost or valuation, is carried out at year-end to ascertain whether events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in the asset's fair value during the period;
- evidence of obsolescence or physical damage to the asset;
- a significant adverse change in the statutory or other regulatory environment in which the authority operates;
- a commitment by the authority to undertake a significant reorganisation.

In the event that an impairment is identified, the value will either be written off to the Revaluation Reserve where sufficient reserve levels for that asset exist, or written off to Service Expenditure through the Comprehensive Income and Expenditure Statement where the carrying value falls below the historic value of the asset. Any impairment at the balance sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer making the impairment.

If the impairment is identified on an Investment Property, the value is written out to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

14.12. Gains or Losses on Disposal of Fixed Assets

When an asset is disposed of or de-commissioned, the carrying value of the asset and any receipts from the sale, together with the costs of disposal, are shown on the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement which, therefore, bears a net gain or loss on disposal.

Where the receipt is in excess of £10,000, it is appropriated to the Capital Receipts Reserve, via the Movement in Reserves Statement, where it can be used for any approved capital purpose, e.g. for new capital investment. The carrying value of the disposed asset is appropriated to the Capital Adjustment Account from the Movement on Reserves Statement. Costs of disposal remain on the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

On disposal, any revaluation gains for the asset, held in the Revaluation Reserve, are transferred to the Capital Adjustment Account.

15. **Leases**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. A definition of a lease includes hire purchase arrangements.

15.1. **Finance Leases**

As lessee, the Council shall recognise finance leases as assets and liabilities at amounts equal to the fair value of the property or, if lower, the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The Council recognises an asset under a finance lease in the balance sheet at an amount equal to the net investment of the lease.

Assets recognised under a finance lease are depreciated; the depreciation policy for leased assets is consistent with the policy for other Property, plant and equipment. Where it is not certain that ownership of the asset will transfer at the end of the lease, the asset is depreciated over the shorter of the lease term and its useful economic life. After initial recognition, assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

As lessor, the Council derecognises the asset and show this as a long term debtor. Lease rentals receivable are apportioned between a charge for the acquisition of capital (applied to write down the lease debtor) and finance income – which is credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. The Code required this income to be treated as a capital receipt and, therefore, it is reversed out via the movement in Reserves Statement to the Capital Receipts Reserve. For finance leases that existed at 31st March 2010, regulations allow adjustment to be made transferring the capital receipt into the General Fund Balance.

15.2. **Operating Leases**

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by the Council.

15.3. **Embedded Leases**

These are assets, which although not owned by the Council, are used primarily by the authority for service provision. An example of this would be vehicles used by the Council's Street Cleansing and Refuse and Recycling Collection contractor.

In this case an estimated value for the vehicles has been used along with a leased term in line with the contract period.

Where this applies, assets are recognised in the balance sheet at the Net Book Value and offset by a Deferred Liability. The lease charge then forms part of the contract payment on behalf of these vehicles, on a straight-line basis over the life of the asset.

16. Current Assets and Liabilities

16.1. Short term Debtors and Creditors

With exception set out above (policy no 2), the Revenue and Capital accounts of the Council are maintained on an accruals basis in accordance with the Code and other relevant IASs. That is, sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.

16.2. Inventories

Stocks are inventories that held at the price paid and this is a departure from the requirements of the Code and ISA 2, which requires stocks to be shown at actual cost or net realisable value if lower. The effect of the different treatment is immaterial given the low stock levels held.

16.3. Impairment Allowance for Bad and Doubtful Debts

The figure shown in the Statement of Accounts for debtors is adjusted for bad debts. This allowance is recalculated annually by applying a percentage factor to the debt in each age category that is unlikely to be collectable. Known uncollectable debts are written off.

17. Contingent Assets and Contingent Liabilities

Contingent assets are not recognised in the Statement of Accounts. They are disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities are not recognised in the accounting statements. They are disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability, the nature of the liability is disclosed together with a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

18. Short term and long term Provisions

The Council sets aside provisions for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the provision must be the best estimate of the likely liability or loss. When utilised, the payment is charged to Provisions and not to Service Expenditure.

19. Reserves

The Council holds Usable and Unusable Reserves. Usable Reserves give the Council discretion to meet expenditure without having a direct impact on Council Tax. In contrast, Unusable Reserves do not give the Council such discretion and

are kept to manage the accounting processes for non-current assets, financial instruments and employee benefits.

Usable Reserves are created when the Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. These reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. No expenditure is charged directly to a reserve but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement; this is then offset by a reserve appropriation within the Movement in Reserves Statement. The exception is amounts required for the repayment of external loans and for financing capital expenditure from revenue sources. Where this applies, amounts are appropriated from the General Fund Balance in the Movement in Reserves Statement.

The General Fund Balance acts as a working contingency to meet unforeseen and unforeseeable costs including those relating to emergencies. Earmarked reserves, such as the repairs and renewals reserve, are for specific purposes. The Capital Receipts Reserve can only be used for certain statutory purposes such as financing capital expenditure.

The Major Repairs Reserve is required by statutory provision to be set up in relation to the Housing Revenue Account.

20. Employee Benefits

Three categories of employee benefits exist, under IAS 19 and IPSAS 25 Employee Benefits, as detailed below.

20.1. Benefits payable during employment

- a) Short-term employee benefits arise during a financial year or are those due to be settled within 12 months of the year-end. They include wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year employees render service to the Council.
- b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

Where considered of a material nature these are accrued.

In 2012/13, no accrual was made for any benefits earned by current employees but payable after the balance sheet as they are considered to be immaterial.

20.2. Termination benefits including Exit Packages

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity. In the event of notice of termination being served on an employee, the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is demonstrably committed to the termination of employment.

20.3. Post-employment benefits

As part of the terms and conditions of employment of its employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Code requires the Council to account for this benefit at the time that employees earn their future entitlement. The amount charged to the Comprehensive Income and Expenditure Statement for employees pensions is in accordance with IAS19 Retirement Benefits, subject to the interpretations set out in the Code. This is accounted for in the following ways:

- Pension liabilities, attributable to the Council, are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.6% based on the indicative rate of return.
- The assets of the pension fund attributable to the Council are included on the Balance Sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;
 - Unlisted securities – current bid price;
 - Property – market value.
- The change in net pensions liability is analysed into six components:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Interest Cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is debited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on the average expected long term return. This is credited to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the assumptions have been updated - debited to the Comprehensive Income and Expenditure Statement.

Under IAS 19, the Council recognises, as an asset or liability, the surplus/deficit in pension costs calculated in accordance with the standard. This surplus/deficit is the excess/shortfall of the value of assets when compared to the present value of the pension liabilities. Where the contributions paid into the Pension Fund do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any

such mismatch is to be dealt with by an equivalent appropriation to or from the Pension Reserve together with any Actuarial gains/losses. The difference between the recognised net pension liability and the amounts attributed to this Council in Kent County Pension Fund are shown in the Balance Sheet as Pensions Liability and this is offset by the Pensions Reserve (an adverse balance).

The Local Government Pension Scheme, applicable to this Council, is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets over the average future working life of its employees. Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2013 and changes to contribution rates as a result of that valuation will take effect from 1 April 2014.

21. **Financial Instruments**

The Code has significant disclosure requirements relating to Financial Instruments (e.g. loans and investments). They relate to the identification of the various types of Financial Instruments, gains and losses arising from transactions during the year, comparative valuation statements, and the assessment of risks associated with holding Financial Instruments.

Detailed disclosure of the Council's holding of Financial Instruments is included in Note 21 on page 46.

21.1. **Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

The reconciliation of amounts charged to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed in the Movement in Reserves Statement by a transfer to or from Unusable Reserves (Financial Instruments Adjustment Account).

21.2. **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments, but are not quoted in an active market; and,
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

21.3. **Loans and Receivables**

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (where specific) or to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement.

21.4. **Available-for-sale Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value.

Values are based on the following principles:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments – discounted cash flow analysis; and;
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-For-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. Subsequently, this entry is reversed in the Movement in Reserves Statement and debited/credited to the Available-for-Sale Reserve. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event and payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

21.5. **Credit Risk**

The Code requires Authorities to estimate the "Fair Value" of their Financial Instruments and compare them with the carrying amounts which appear on the Balance Sheet. The Fair Value estimate will include the future discounted cash flows associated with the Council's Financial Instruments as at 31 March 2013 and should reflect prevailing interest rates as at that date. Full details of this disclosure are included in Note 21 on page 46.

The Code identifies the following three types of risk associated with Financial Instruments:

- (a) Credit risk relates to the possibility of counterparties defaulting on their financial obligations;
- (b) Liquidity risk relates to the possibility of funds being unavailable to meet financial commitments;
- (c) Market risk relates to possible exposure to adverse interest rate movements, or changes in other market conditions e.g. foreign exchange rates.

The Code requires Authorities to produce a sensitivity analysis, detailing the impact of a 1% interest rate change. A full assessment of these risks, including the sensitivity analysis, is included in Note 21 on page 46.

The Code's disclosure requirements in relation to credit risk are equally applicable to outstanding debtors. Note 23 on page 49 includes an age analysis of overdue debtors at the balance sheet date. In addition to this a provision for bad debts is also included in the Statement of Accounts (Statement of Accounting Policies 16.3).

22. **Cash and Cash Equivalents**

Cash and Cash Equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and are shown on the balance sheet at their nominal value, these include investments that can be accessed immediately without incurring a penalty, such as call accounts. Cash and Cash Equivalents are shown net of any bank overdraft that form part of the Council's cash management.

23. **Private Finance Initiative (PFI)**

PFI contracts are agreements to receive services, where the responsibility for making available fixed assets, needed to provide the services, passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as the ownership of the fixed assets will pass to the Council at the end of the contract at no charge, the Council carries the fixed assets used under the contract on the balance sheet.

The original recognition of these fixed assets was balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets.

The stock is recognised at market value less the EUV-SH factor and additions are measured at cost as per the contractor model. Lifecycle costs are accounted for when they occur.

Fixed assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators will be analysed into the following elements:

- Fair value of the services received during the year;
- Finance charge – an interest charge on the balance sheet liability;
- Payment towards the liability.

24. **Group Accounts**

Local Authorities are required to consider all their interests in subsidiaries, associated companies and joint ventures and to prepare a full set of group financial statements where they have material interests, thereby providing a complete picture of the Authority's control over other entities.

This Council has undertaken an exercise examining all its partnership arrangements and workings with other undertakings, and has determined that it has no interests in subsidiaries, associated companies or joint ventures, however please refer to Note 30 for the winding up of Ashford Future Company.

25. **Exceptional Items and Prior Year Adjustments**

Exceptional items are included in the cost of the service to which they relate, or on the face of the Comprehensive Income and Expenditure Account if that degree of prominence is necessary in order to give a fair presentation of the accounts. An adequate description of each exceptional item is given within the notes to the accounts.

Prior Year Adjustments arise as a result of a change in accounting policies or to correct a material error. When either of the circumstances applies, the Council will show the extent of the adjustment in a table reconciling the adjusted opening and closing balances and/or comparative amounts shown for a prior period.

26. **Events after the Balance Sheet Date**

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, the amounts in the Statement of Accounts and any affected disclosures should be adjusted.

Where an event occurs after the Balance Sheet date and is indicative of conditions that arose after the Balance Sheet date the amounts recognised in the Statement of Accounts should not be adjusted but a disclosure made including:

- the nature of the event;
- an estimate of the financial effect.

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue.

2. Accounting Standards that have been issued but not adopted

'The Code' requires disclosure of the impact (where material) of an accounting change required by these 'new' standards. This requirement applies to those standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2013 for 2012/13).

The following apply to these Financial Statements:

- Amendments to *IAS 1 Presentation of Financial Statements*: other comprehensive income – June 2011 addresses presentation issues only and, therefore, no disclosure of the impact of the change is required;
- Amendments to *IFRS 7 Financial Instruments: Disclosures* offsetting financial assets and liabilities – December 2011 has no significant effect on the policies adopted by this Council;
- Amendments to *IAS 12 Income Taxes*: deferred tax relating to the recovery of underlying assets – December 2010 there are limited aspects applying to local authorities and, as such, does not impact on this Council;
- Amendments to *IAS 19 Employee Benefits* the impact is likely to be immaterial;
- *IFRS 13 Fair Value Measurement*, May 2011
 - adoption has been deferred to 2014/15 at the earliest and, therefore, does not need to reported this year.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are

- The Council has commenced legal proceedings against a contractor of the Stour Centre project. No assumption has been made in these accounts for any cost recovery. This is also reported as a 'Contingent Asset - see note 32.
- The Council has set budgets, and its medium term financial plans, on the basis of central funding already announced by the Government. If these were to change in the near future, it may well arise that an adjustment in local services will be required to enable the Council to continue as a 'going concern'.

4. **Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty**

The items in the Authority's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from assumptions
Land Searches	<p>The Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees of up to £22,000 paid to the Council to access land charges data (plus interest and costs).</p> <p>A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The Council has been informed that the value of those claims at present is in the region of £64,000 plus interest and costs.</p> <p>The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council.</p> <p>It is possible that additional claimants may come forward to submit claims for refunds or that the claim figures referred to above may increase.</p> <p>The Government has changed the interpretation of the regulations for setting charges for Private Search Fees. A reasonable estimate has been made of potential claims and an</p>	<p>A Grant has been paid to the Council to cover the cost of this change of £34,000 which has been added to a reserve to cover potential claims. The total claims could exceed £110,000</p>

Item	Uncertainties	Effect if Actual Results Differ from assumptions
	amount has been set aside into a reserve.	
Pensions	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>A firm of actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.</p>	<p>A 0.1% change in the discount rate (the iBoxx Corporate Bond Index) would result in a change in the liability of £2.6m.</p> <p>A 1 year change in the mortality assumption would result in a £4.8m change in the pension liability.</p>
NNDR appeals liability	From April 2013, the Council will be responsible for refunding successful appeals against past NNDR liabilities. An estimate of the possible effect on this Council has been taken into account in these accounts and future funding assumptions.	If the level of successful appeals exceeds the assumptions already made, the cost will fall to be met from future budgets.
Recovery of Benefit overpayments	These accounts assume that the Council will continue to be able to recover overpaid benefit from Benefit Claimants.	Should the changes being considered by the Government restrict the ability of local authorities to pursue such debts, write-offs of uncollected debt will have to be met from future budgets.
Impairment Allowance for Bad Debts	The Council has an impairment allowances for bad debts totalling £3,521,000 approximately 48% of the value outstanding debt	In the current economic climate collection rates for all forms of debt have been maintained, however any decline in these rates for debt would result in a need to increase the allowance.

5. Amounts Reported for Resource Allocation Decisions

The income and expenditure of the Authority's principal Services recorded in the budget reports for the year is as follows:

2012/13	Corporate Strategy & Personnel	Legal & Democratic Services	Planning & Develop- ment	Financial Services	Business Change & Technology	Housing (General Fund)	Sub-total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
- Employees	871	1,087	2,149	3,578	859	1,340	9,884
- Premises	3	0	8	4	0	992	1,007
- Supplies & Services	720	522	366	46,916	374	1,153	50,051
- Transport	50	43	107	31	19	40	290
	<u>1,644</u>	<u>1,652</u>	<u>2,630</u>	<u>50,529</u>	<u>1,252</u>	<u>3,525</u>	<u>61,232</u>
Income	(72)	(152)	(1,574)	(47,600)	(39)	(2,357)	(51,794)
	<u>1,572</u>	<u>1,500</u>	<u>1,056</u>	<u>2,929</u>	<u>1,213</u>	<u>1,168</u>	<u>9,438</u>
Non-Controllable Items							
- Recharged from other accounts	254	(327)	416	(742)	(999)	(1,496)	(2,894)
- Capital charges	0	0	0	0	10	590	600
- Transfer to/from reserves	0	0	(12)	35	0	0	23
	<u>254</u>	<u>(327)</u>	<u>404</u>	<u>(707)</u>	<u>(989)</u>	<u>(906)</u>	<u>(2,271)</u>
Net expenditure	1,826	1,173	1,460	2,222	224	262	7,167

2012/13	Cultural Services	Environ- mental Services	Capital Charges & Interest	Levies & Grants	Reserves	Funding	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
- Employees	752	2,357	0	0	0	0	12,993
- Premises	500	2,095	0	0	0	0	3,602
- Supplies & Services	472	4,972	0	307	0	0	55,802
- Transport	37	126	0	0	0	0	453
	<u>1,761</u>	<u>9,550</u>	<u>0</u>	<u>307</u>	<u>0</u>	<u>0</u>	<u>72,850</u>
Income	(439)	(3,808)	(378)	0	0	(13,921)	(70,340)
	<u>1,322</u>	<u>5,742</u>	<u>(378)</u>	<u>307</u>	<u>0</u>	<u>(13,921)</u>	<u>2,510</u>
Non-Controllable Items							
- Recharged from other accounts	189	238	0	0	0	0	(2,467)
- Capital charges	995	380	(1,693)	0	0	0	282
- Transfer to/from reserves	79	(48)	(181)	0	(241)	0	(368)
	<u>1,263</u>	<u>570</u>	<u>(1,874)</u>	<u>0</u>	<u>(241)</u>	<u>0</u>	<u>(2,553)</u>
Net expenditure	2,585	6,312	(2,252)	307	(241)	(13,921)	(43)

Amounts Reported for Resource Allocation Decisions continued

2011/12	Corporate, Strategy & Personnel	Legal & Democratic Services	Planning & Develop- ment	Financial Services	Business Change & Technology	Housing (General Fund)	Sub-total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
- Employees	698	1,027	2,233	3,418	1,067	1,425	9,868
- Premises	2	24	3	0	1	883	913
- Supplies & Services	225	601	314	42,954	752	1,115	45,961
- Transport	31	13	27	14	6	15	106
	956	1,665	2,577	46,386	1,826	3,438	56,848
Income	(23)	(223)	(1,891)	(43,888)	(131)	(1,898)	(48,054)
	933	1,442	686	2,498	1,695	1,540	8,794
Non-Controllable Items							
- Recharged from other accounts	(391)	(243)	546	(662)	(882)	(1,509)	(3,141)
- Capital charges	0	10	0	0	10	525	545
- Transfer to/from reserves	(22)	(62)	(83)	61	0	104	(2)
	(413)	(295)	463	(601)	(872)	(880)	(2,598)
Net expenditure	520	1,147	1,149	1,897	823	660	6,196

2011/12	Cultural Services	Environ- mental Services	Capital Charges & Interest	Levies & Grants	Reserves	Funding	Grand Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure							
- Employees	855	2,533	0	0	0	0	13,256
- Premises	418	1,876	0	0	0	0	3,207
- Supplies & Services	710	4,695	781	308	0	0	52,455
- Transport	21	65	0	0	0	0	192
	2,004	9,169	781	308	0	0	69,110
Income	(437)	(3,890)	(1,465)	0	0	(13,261)	(67,107)
	1,567	5,279	(684)	308	0	(13,261)	2,003
Non-Controllable Items							
- Recharged from other accounts	298	230	0	0	0	0	(2,613)
- Capital charges	1,164	387	(2,096)	0	0	0	0
- Transfer to/from reserves	236	31	297	0	(210)	21	373
	1,698	648	(1,799)	0	(210)	21	(2,240)
Net expenditure	3,265	5,927	(2,483)	308	(210)	(13,240)	(237)

Reconciliation of Service Income and Expenditure to Cost of services in the Comprehensive Income and Expenditure statement

2011/12 £'000		2012/13 £'000
(237)	Net expenditure in the Directorate Analysis	(43)
(75)	Net expenditure of services and support services not included in the Analysis	(1,069)
130,728	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	3,340
6,180	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(6,991)
<u>136,596</u>	Cost of services in Comprehensive Income and Expenditure statement	<u>(4,763)</u>

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

6. Members' Allowances

The Authority paid the following amounts to members of the council during the year:

2011/12 £'000		2012/13 £'000
279	Allowances	282
13	Expenses	13
<u>292</u>		<u>295</u>

Further details of this can be accessed at <http://www.ashford.gov.uk/members-allowances>

7. Officers' Remuneration

This note provides the details of Senior Officers' remuneration and the numbers of employees whose remuneration falls into the categories shown. 'Remuneration' for this purpose, means taxable pay, and includes the tax value of other benefits e.g. leased cars, and termination payments. Figures within this note will exclude any payments covered by confidentiality agreements.

Senior Employee Remuneration 2012/13

2012/13	Pay & expenses *	Benefits in kind	Total	Pension contributions	Total remuneration
	£'000	£'000	£'000	£'000	£'000
Chief Executive +	117	2	119	14	133
Deputy Chief Executive & CFO +	91	5	96	12	108
Head of Cultural & Projectr Services	74	10	84	10	94
Head of Environmental Services	75		75	10	85
Head of Housing	74		74	10	84
Head of IT & Customer Services	74		74	10	84
Head of Legal and Democratic Services +	71	4	75	10	85
Head of Planning & Development	87	4	91	12	103
	<u>663</u>	<u>25</u>	<u>688</u>	<u>88</u>	<u>776</u>

*Where an officer is entitled to a lease car, they may instead take a 'cash alternative'. Where this is the case the Cash Alternative is shown under 'Salary', but where a lease car is taken, the taxable benefit is shown under 'Benefits in Kind'. The taxable benefit is not the same value as the subsidy paid by the council to the employee.

+ Officers that also fulfil statutory roles

Senior Employee Remuneration 2011/12 comparators

2011/12	Pay & expenses *	Benefits in kind	Total	Pension contributions	Total remuneration
	£'000	£'000	£'000	£'000	£'000
Chief Executive +	116	5	121	16	137
Deputy Chief Executive & CFO +	91	5	96	12	108
Head of Cultural & Projectr Services	71	3	74	10	84
Head of Environmental Services	74		74	10	84
Head of Housing	74		74	10	84
Head of IT & Customer Services	74		74	10	84
Head of Legal and Democratic Services +	71	4	75	10	85
Head of Planning & Development	87	4	91	11	102
	<u>658</u>	<u>21</u>	<u>679</u>	<u>89</u>	<u>768</u>

Other Officer Remuneration by Band

2011/12	Remuneration bands	2012/13
£'000		£'000
5	£50,000 - £54,999	4
12	£55,000 - £59,999	12
0	£60,000 - £64,999	1
0	£65,000 - £69,999	0
<u>17</u>		<u>17</u>

Figures marked with an * indicate bands which include officers who have received redundancy payments within their remuneration for the year.

The bandings only include the remuneration of senior employees and relevant officers which have not been disclosed individually above.

8. Termination Benefits

The Authority terminated the contracts of three employees in 2012/13, incurring liabilities of £80,343 (£47,064 in 2011/12).

2011/12			2012/13	
Voluntary £'000	Compulsory £'000	Bands	Voluntary £'000	Compulsory £'000
1	3	£0 - £19,999		2
1		£20,000 - £39,999		0
		£60,000 - £79,999		1
<u>2</u>	<u>3</u>		<u>0</u>	<u>3</u>

9. External Audit Costs

In 2012/13 Ashford Borough Council paid the following fees relating to external audit and inspection:

2011/12 £'000		2012/13 £'000
122	Fees payable with regard to external Audit services carried out by the appointed Auditor	80
28	Fees payable for the certification of grant claims and returns	28
<u>150</u>		<u>108</u>

For the audit of the accounts for 2012/13, the external auditor (Grant Thornton) has quoted the following amounts:

	£'000
• Audit of accounts	80
• Audit of grant claims	13

10. Grant Income

The Authority credited the following material government grants and contributions to the Provision of Services in the Comprehensive Income and Expenditure Statement.

2011/12			2012/13	
re-stated	re-stated		£'000	£'000
£'000	£'000			
		<i>Credited to Net Cost of Services</i>		
(50)		CLG: Homeless Initiatives	(50)	
(17)		CLG: Housing Trailblazer Program	0	
(77)		DWP: Future Job Fund Grants	0	
(781)		DWP: Benefit Administration Subsidy	(812)	
(40,893)		DWP: Benefits Subsidy	(44,527)	
(71)		Home Office: Community Safety	(30)	
0	(41,889)	Other government grants	(341)	(45,760)
(582)		KCC: Recycling Credits	(599)	
(32)	(614)	EU: Greenov funding	(94)	(693)
		<i>Credited to Taxation and Non-specific Grant Income</i>		
		<i>Non-ringfenced government grants:</i>		
(1,513)		- Rate Support Grant	(110)	
(159)		- Council Tax Freeze Grant	(162)	
(253)		- Transition Grant		
(621)		- New Homes Bonus	(1,437)	
(41)		- Other miscellaneous grants		
(3,325)	(5,912)	Capital grants and contributions	(1,592)	(3,301)
	(48,415)			(49,754)

11. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2012/13.

	Balance at 31 March 2012 re-stated £'000	2012/13 Transfers In £'000	Transfers Out £'000	Balance at 31 March 2013 £'000
Fund future expenditure	(2,585)	(2,469)	2,034	(3,020)
Provide for the maintenance of an asset	(772)	(198)	384	(586)
Required by statute reserves	(260)	0	7	(253)
Developer contributions	(3,920)	(1,050)	714	(4,256)
	<u>(7,537)</u>	<u>(3,717)</u>	<u>3,139</u>	<u>(8,115)</u>

	Balance at 1 April 2011 re-stated £'000	2011/12 Transfers In re-stated £'000	Transfers Out re-stated £'000	Balance at 31 March 2012 re-stated £'000
Fund future expenditure	(2,314)	(550)	279	(2,585)
Provide for the maintenance of an asset	(812)	(268)	308	(772)
Required by statute reserves	(214)	(63)	17	(260)
Developer contributions	(3,542)	(378)	0	(3,920)
	<u>(6,882)</u>	<u>(1,259)</u>	<u>604</u>	<u>(7,537)</u>

The Purpose of the Earmarked Reserves

The Council has established a number earmarked reserves for specific purposes. These reserves broadly fall into four classifications:

Fund future expenditure – These have been established specifically to manage fluctuations in expenditure in the future or to provide for specific risks that may need to be funded. Examples of these reserves are:

- Elections Reserve
- Valuation of Assets
- Actuarial volatility
- Interest rate reserve
- Members' IT Reserve
- Planning Appeals
- Hopewell Twinning Reserve
- Section 106 Monitoring fee

Provide for the maintenance of an asset – A general reserve has been established to provide for the maintenance of the Council's assets, in addition to this a number of leases require the Council to put aside money to cover future maintenance liabilities.

Required by statute reserves – A number of the Council's revenue generating activities are governed by statutory provisions that require the Council to breakeven over a number

of years. Any surplus generated by these activities is allocated to these reserves to offset future deficits, for example land charges and building control surplus'.

Developer contributions – As part of the Planning process developers can be required to pay sums to the Council for the provision and maintenance of community facilities and open space. Often the payment of these amounts occurs over a number of years and is linked to the progress of the development. These monies are held in reserves until needed.

12. Other Operating Expenditure

2011/12 £'000		2012/13 £'000
816	Parish Council Precepts	844
236	Levies	240
825	Payments to the Government Housing Capital Receipts Pool	348
(508)	Gains/losses on the disposal of non-current assets	31
(69)	Deferred sales proceeds (long term debtors)	0
<u>1,300</u>	<i>Total</i>	<u>1,463</u>

13. Financing and Investment Income and Expenditure

2011/12 £'000		2012/13 £'000
457	Interest payable and similar charges	3,811
954	Interest payable on PFI contracts and Finance Leases	1,267
976	Pension interest cost and expected return on pensions assets	1,502
(998)	Interest receivable and similar income	(387)
<u>1,389</u>	<i>Total</i>	<u>6,193</u>

14. Taxation and Non-Specific Grant Income

2011/12 re-stated £'000		2012/13 £'000
(7,256)	Council Tax income	(7,363)
(4,895)	Non-domestic rates	(5,673)
(2,587)	Non-ringfenced government grants	(1,709)
(3,325)	Capital grants and contributions	(1,592)
<u>(18,063)</u>	<i>Total</i>	<u>(16,337)</u>

15. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments during 2012/13	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Grants Unapplied Account £'000	Unusable Reserves (Note 25) £'000
Sources of Finance (table 19)	1,032		325	4,526	23	(5,906)
Sums set-a-side for capital purposes (table 19)	1,389	3,197				(4,586)
Revenue expenditure charged to capital under statute	(906)					906
Removal of items not chargeable to Fund Balances						
- Capital adjustment account (Note 34)	(2,620)	3,125		(5,200)		4,695
- Capital grants unapplied account	576				(576)	
- Capital receipts reserve (for HRA, see note 5)	58	864	(922)			
- Deferred capital receipts reserve	(17)		(11)			28
- Pensions reserve (table 28)	(745)	(162)				907
- Collection fund adjustment account	(19)					19
- Accumulated absences account	(55)	4				51
	<u>(1,307)</u>	<u>7,028</u>	<u>(608)</u>	<u>(674)</u>	<u>(553)</u>	<u>(3,886)</u>

Adjustments during 2011/12 re-stated	General Fund Balance £'000	Housing Revenue Account £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Grants Unapplied Account £'000	Unusable Reserves (Note 25) £'000
Sources of Finance (table 19)	3,288	0	1,477	4,310	2,024	(11,099)
Sums set-a-side for capital purposes (table 19)	857	338				(1,195)
Revenue expenditure charged to capital under statute	(2,020)	(113,713)				115,733
Removal of items not chargeable to Fund Balances						
- Capital adjustment account (Note 34)	2,296	(15,448)		(3,407)		16,559
- Capital grants unapplied account	36	0			(36)	
- Capital receipts reserve (for HRA, see note 5)	285	272	(557)			
- Deferred capital receipts reserve	69		(10)			(59)
- Pensions reserve (table 28)	317	12				(329)
- Collection fund adjustment account	61					(61)
- Accumulated absences account	0	0				0
	<u>5,189</u>	<u>(128,539)</u>	<u>910</u>	<u>903</u>	<u>1,988</u>	<u>119,549</u>

16. Property, Plant and Equipment

Property, plant & equipment 2012/13	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infra- structure assets	Sub-total
	£'000	£'000	£'000	£'000	£'000
<i>Cost or Valuation</i>					
At 1st April 2012	321,567	56,976	3,498	229	382,270
Additions	4,557	750	142	0	5,449
Donations	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	852	61	0	0	913
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	604	(28)	0	0	576
Derecognition - disposals	(636)	(713)	0	0	(1,349)
Derecognition - other	0	0	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0	0	0
Other movements in cost or valuation	0	0	0	0	0
At 31st March 2013	326,944	57,046	3,640	229	387,859

Property, plant & equipment 2012/13	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment	PFI assets included in Property, plant & equipment
	£'000	£'000	£'000	£'000	£'000
<i>Cost or Valuation</i>					
At 1st April 2012	625	200	111	383,206	24,758
Additions	0	0	649	6,098	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	0	913	533
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	0	0	0	576	0
Derecognition - disposals	0	0	0	(1,349)	(72)
Other movements in cost or valuation	0	0	(111)	(111)	0
At 31st March 2013	625	200	649	389,333	25,219

Property, Plant and Equipment continued

Property, plant & equipment 2012/13	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infra- structure assets	Sub-total
	£'000	£'000	£'000	£'000	£'000
<i>Accumulated Depreciation and Impairment</i>					
At 1st April 2012	(128,398)	(4,497)	(2,877)	(41)	(135,813)
Depreciation charge	(5,247)	(1,808)	(264)	(8)	(7,327)
Depreciation written out to the Revaluation Reserve		164	0	0	164
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	3,448			0	3,448
Derecognition - disposals	11	37	0	0	48
At 31st March 2013	<u>(130,185)</u>	<u>(6,104)</u>	<u>(3,142)</u>	<u>(49)</u>	<u>(139,480)</u>
<i>Net book value</i>					
At 31st March 2013	196,759	50,942	498	180	248,379
At 31st March 2012	193,169	52,479	621	188	246,457

Property, plant & equipment 2012/13	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment	PFI assets included in Property, plant & equipment
	£'000	£'000	£'000	£'000	£'000
<i>Accumulated Depreciation and Impairment</i>					
At 1st April 2012	(16)	(2)	0	(135,831)	(12,879)
Depreciation charge	(3)	(1)	0	(7,331)	(337)
Depreciation written out to the Revaluation Reserve	0	0	0	164	213
Depreciation written out to the (Surplus)/Deficit on the Provision of Services	0	0	0	3,448	0
Derecognition - disposals	0	0	0	48	0
At 31st March 2013	<u>(19)</u>	<u>(3)</u>	<u>0</u>	<u>(139,502)</u>	<u>(13,003)</u>
<i>Net book value</i>					
At 31st March 2013	606	197	649	249,831	12,216
At 31st March 2012	609	198	111	247,375	11,879

Property, Plant and Equipment continued

Property, plant & equipment 2011/12 - re-stated	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infra- structure assets	Sub-total
	£'000	£'000	£'000	£'000	£'000
<i>Cost or Valuation</i>					
At 1st April 2011	312,969	48,691	3,328	228	365,216
Additions	11,346	1,274	175	0	12,795
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(3,359)	1,822	(3)	0	(1,540)
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	174	5,201	0	0	5,375
Derecognition - disposals	(861)	(12)	(1)	0	(874)
Other movements in cost or valuation	1,298		(1)	0	1,297
At 31st March 2012	<u>321,567</u>	<u>56,976</u>	<u>3,498</u>	<u>228</u>	<u>382,269</u>

Property, plant & equipment 2011/12 - re-stated	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment	PFI assets included in Property, plant & equipment
	£'000	£'000	£'000	£'000	£'000
<i>Cost or Valuation</i>					
At 1st April 2011	625	199	1,298	367,338	25,393
Additions	0	0	111	12,906	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	0	(1,540)	(221)
Revaluation increases/(decreases) recognised in the (Surplus)/Deficit on the Provision of Services	0	0	0	5,375	0
Derecognition - disposals	0	0	0	(874)	(414)
Other movements in cost or valuation	0	1	(1,298)	0	0
At 31st March 2012	<u>625</u>	<u>200</u>	<u>111</u>	<u>383,205</u>	<u>24,758</u>

Property, Plant and Equipment continued

Property, plant & equipment 2011/12 - re-stated	Council dwellings	Other land & buildings	Vehicles, plant, furniture & equipment	Infra- structure assets	Sub-total
<i>Accumulated Depreciation and Impairment</i>					
At 1st April 2011	(113,362)	(3,593)	(2,627)	(32)	(119,614)
Depreciation charge	(3,461)	(1,968)	(253)	(8)	(5,690)
Depreciation written out to the Revaluation Reserve	3,359	1,885	3	0	5,247
Impairment losses/(reversals) recognised in the Revaluation Reserve	(368)	(50)	0	0	(418)
Impairment losses/(reversals) recognised in the (Surplus)/Deficit on the Provision of Services	(14,566)	(771)	0	0	(15,337)
At 31st March 2012	<u>(128,398)</u>	<u>(4,497)</u>	<u>(2,877)</u>	<u>(40)</u>	<u>(135,812)</u>
<i>Net book value</i>	0	0	0	0	
At 31st March 2012	193,169	52,479	621	188	246,457
At 31st March 2011	199,607	45,098	701	196	245,602

Property, plant & equipment 2011/12 - re-stated	Community assets	Surplus assets	Assets under construction	Total property, plant & equipment	PFI assets included in Property, plant & equipment
<i>Accumulated Depreciation and Impairment</i>					
At 1st April 2011	(13)	(1)	0	(119,628)	(12,265)
Depreciation charge	(3)	(1)	0	(5,694)	(214)
Depreciation written out to the Revaluation Reserve	0	0	0	5,247	221
Impairment losses/(reversals) recognised in the Revaluation Reserve	0	0	0	(418)	0
Impairment losses/(reversals) recognised in the (Surplus)/Deficit on the Provision of Services	0	0	0	(15,337)	(621)
At 31st March 2012	<u>(16)</u>	<u>(2)</u>	<u>0</u>	<u>(135,830)</u>	<u>(12,879)</u>
<i>Net book value</i>	0	0	0	0	
At 31st March 2012	609	198	111	247,375	11,879
At 31st March 2011	612	198	1,298	247,710	13,128

Asset Valuation

A valuation exercise and impairment review was completed by external valuers (Canterbury City Council & Savills) as at the balance sheet date.

Depreciation

The useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings – the Council uses the Major Repairs Allowance as a proxy for depreciation between 25-60 years
- Other Land and Buildings – the useful life estimated by a qualified valuer between 15-60 years
- Vehicles, Plant, Furniture & Equipment – subject to professional view on life between 5-15 years.
- Infrastructure – the useful life estimated by a qualified valuer between 15-60 years

17. Revaluation gains and Impairments

There was a change in the valuation of HRA Dwellings and impairment to the value. Please see the HRA supplementary statement, note 10 on page 72.

In addition to the above assets Tenterden Leisure Centre was revalued due to the completion of capital works, the land value was impaired by £508,238 however the building was revalued up by £480,127. Therefore a net £28,111 was charged to the statement of Comprehensive Income and Expenditure.

Assets were valued as at 1 April 2012.

18. Heritage Assets

Following the adoption of FRS30 Heritage assets have been identified and disclosed in these accounts, the following assets are disclosed in the balance sheet:

2011/12		2012/13
£'000		£'000
1,571	Windmills at Woodchurch & Willesborough	1,571
366	Doctor Wilkes Hall	366
750	Hubert Fountain (Victoria Park)	750
242	Mayor's regalia, including mace and badges	242
<u>2,929</u>		<u>2,929</u>

Since 2008/09 The Council has held these assets at a value of £2,929,000, no changes have been made to this valuation.

The Council also owns a number of other assets predominately held for heritage reasons, and it has not been possible to obtain valuations for them. These assets are:

- The World War mark IV tank in the town centre
- St Mary's Church ruins, Little Chart
- Ancient Monument - Boys Hall Moat, Orbital Park
- War Memorial (shelter) WM2687, Kennington
- Martyrs Seat, Queen Mothers Park, Hythe Road
- Remains of Roman roadside settlement (Westhawk Farm)
- WWII Pill Box (Westhawk Farm)
- War Memorial, within the Memorial Gardens, Ashford Town Centre

19. Capital Expenditure and Capital Financing

2011/12 re-stated £'000		2012/13 £'000
34,440	<i>Opening Capital Financing Requirement</i>	150,783
	<i>Restatement -deferred capital receipt</i>	1,157
	<i>Capital investment:</i>	
12,904	Property, Plant and Equipment	6,098
0	Intangible Assets	91
2,020	Revenue Expenditure funded from Capital under Statute	906
113,713	HRA Subsidy Buyout	0
128,637		7,095
	<i>Sources of Finance:</i>	
(1,477)	Capital Receipts	(325)
(3,288)	Government grants and contributions (received in year)	(1,032)
(2,024)	Government grants and contributions (brought forward)	(23)
(4,310)	Major Repairs Reserve	(4,526)
(11,099)		(5,906)
	<i>Sums set aside from revenue</i>	
(971)	- Direct revenue contributions	(1,195)
(224)	- Minimum revenue provision (MRP)	(3,391)
(1,195)		(4,586)
150,783	<i>Closing Capital Financing Requirement</i>	148,543
	<i>Explanation of movements in year</i>	
116,603	Increase in underlying need to borrowing (unsupported by government financial assistance)	9
(35)	Grant for previous year written to CI&ES	0
(225)	Provision for the repayment of debt	(3,391)
116,343		(3,382)

20. Capital Commitments

At 31 March 2013 the Authority had the following capital commitments:

2011/12 £'000		2012/13 £'000
	Stour Centre: combined heat and plant design work	70
	<i>Housing Revenue Account</i>	
1,690	Heating programme	850
93	Kitchen Installations	150
	Electrical refurbishment	300
	Bathrooms	120
	Water mains	75

21. Financial Instruments

Long-term 31 March 2012	Short-term 31 March 2012		Long-term 31 March 2013	Short-term 31 March 2013
£'000	£'000		£'000	£'000
	(1,762)	Cash and Cash Equivalents		5,943
		<i>Investments</i>		
	18,563	Loans and receivables		17,033
2,500	45	Available-for-sale financial assets		2,494
<u>2,500</u>	<u>16,846</u>	<i>Total Investments</i>	<u>0</u>	<u>25,470</u>
	4,700	Trade Debtors		1,422
1,703		Financial assets carried at contract amounts	1,683	
<u>1,703</u>	<u>4,700</u>	<i>Total included in Debtors</i>	<u>1,683</u>	<u>1,422</u>
		<i>Borrowings</i>		
(119,702)	(1,501)	Financial liabilities at amortised cost	(119,471)	(193)
<u>(119,702)</u>	<u>(1,501)</u>	<i>Total included in Borrowings</i>	<u>(119,471)</u>	<u>(193)</u>
		<i>Other Long-term Liabilities</i>		
(28,292)	(6)	PFI and finance lease liabilities	(27,862)	(269)
<u>(28,292)</u>	<u>(6)</u>	<i>Total Other Long-term Liabilities</i>	<u>(27,862)</u>	<u>(269)</u>
		<i>Creditors</i>		
	(10,175)	Financial liabilities at amortised cost		(6,498)
(120)	(211)	Financial liabilities carried at contract amounts	(120)	
<u>(120)</u>	<u>(10,386)</u>	<i>Total Creditors</i>	<u>(120)</u>	<u>(6,498)</u>

2011/12		2012/13
£'000		£'000
457	Losses/Gains on derecognition	3,812
<u>457</u>	Interest payable and Similar Charges	<u>3,812</u>
(684)	Interest Income	(388)
(270)	Losses/Gains on derecognition	
<u>(954)</u>	Interest and Investment Income	<u>(388)</u>
(44)	Surplus arising from the revaluation of financial assets	(7)
<u>(541)</u>	Net gains/loss for the year	<u>3,417</u>

Fair Values of Assets and Liabilities

Not all of the Financial Instruments are carried in the Balance Sheet at fair value. In particular, long-term loans, receivables and financial liabilities are carried at amortised cost.

Fair Value can be assessed by calculating the present value of the cash flows that will take place over the remaining life of the Instruments using the prevailing interest rates as at 31st March 2013.

For the Councils loans the rates used to calculate fair value range from 0.5% to 5.26%. No early repayments or impairments are assumed. For Instruments that will mature within 1 year of the Balance Sheet date the carrying amount is assumed to approximate to Fair Value. The Council had 23 loans with maturities beyond a year as at 31st March 2013 (23 as at 31st March 2012). All of these loans were with the Public Works Loan Board. The principal outstanding was £119,664,000 and the Fair Value was calculated at £132,387,300

The Fair Value of trade and other receivables (e.g. debtors) is taken to be the invoiced or billed amount.

Available for sale assets and assets are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

Long term debtors are carried at amortised cost.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

22. Nature and Extent of Risks Arising from Financial Instruments

Risk management in this area is carried out by a central treasury team (supported by specialist external advisors) under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for risk management, has adopted the CIPFA Treasury Management Code of Practice and has set Treasury Management indicators to control key Financial Instrument risks in accordance with CIPFA's Prudential Code.

The Council's Investment portfolio as at 31/03/13 was as follows:

Credit Risk

<i>Counter party</i>	<i>Maturity date</i>	<i>Amount</i>	<i>Credit rating</i>
		<i>£'000</i>	
<i>Deposit with other local authorities/government</i>			
London Borough of Islington	25 Oct 2013	2,000	
Lancashire County Council	21 Jun 2013	3,000	
City of Birmingham	3 Jun 2013	5,000	
HM Treasury - Debt Management Office	15 Apr 2013	7,000	
<i>Deposit with banks</i>			
Nat West Bank		2,590	A
Santander		1,000	A
Royal Bank of Scotland		3,050	AAA
<i>Bonds</i>			
European Investment Bank (Sterling OverNight Interbank Average)	18 Mar 2014	2,500	AAA

The Code requires the Council to attempt to quantify the potential maximum exposure to credit risk, based on experience of defaults and collection rates over recent years. However, due to the lack of empirical evidence on defaults for investments, the Council is unable to quantify its exposure with any degree of accuracy.

Credit risk arises from investments and some of the Council's customers commercial rent and trade debtors excluding Council Tax and Business Rate debts.

Deposits are not made with banks and financial institutions unless they are rated independently with a minimum rating score of AA-. The Council had no exposure to the Icelandic Banking system and has adjusted the criteria for lending money according to the changing circumstances in the Banking Sector. During the year the only institutions which were members of the Bank of England Credit Guarantee scheme or other UK Government Bodies were used to place investments in – the Guarantee scheme closed on the 28 February 2010 but the Bank of England retains the ability to reopen this should the need arise.

The Council has not experienced any losses from default by counterparties in the past in relation to investments. The Council's investments are such that it does not expect any losses from non-performance by any of its counterparties in relation to investments.

The table below compares the percentage of the Council's investment portfolio that was invested at each credit level at the beginning and at the end of the year.

31 March 2012		31 March 2013	
%		%	%
59	AAA or Local Authority Bonds	(11)	48
41	A or A+	11	52

The overdue amount of sundry debt can be analysed by age as follows:

31 March 2012		31 March 2013	
£'000		£'000	
409	Less than 30 days	423	
35	31 days to 90 days	201	
64	91 days to 364 days	41	
82	More than 1 year	95	
<u>590</u>		<u>760</u>	
(333)	Impairment allowance	(500)	

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loan Board (PWLB), there is no significant risk that it will be unable to raise funds to meet its commitments. Instead the risk is that the Council may have to re-invest a significant proportion of its investments at a time of unfavourable interest rates.

All trade and other payables creditors are due to be paid in less than one year.

Market Risk interest rates/prices/exchange rates

The Council is not exposed to significant risk in terms of its exposure to interest rate movements because the Council has a policy to have at least 60% of its investments in fixed rate instruments.

If interest rates had been 1% higher or lower during the year, this would have resulted in an increase or decrease in interest income of £0.324m and an increase or decrease in payments of £1.2m. However the Council's long-term borrowing is predominately fixed at current rates and therefore a material movement is not anticipated.

23. Debtors

These amounts were due to the Council.

31 March 2012		31 March 2013	
£'000	£'000	£'000	£'000
	2,562		1,388
	0		0
989		1,253	
(948)	41	(1,020)	233
335		355	
(159)	176	(222)	133
3,711		4,608	
(1,775)	1,936	(2,279)	2,329
	<u>4,715</u>		<u>4,083</u>
	Balance at 31st March		

Movement in Debtors is mainly due to:

2011/12 £'000		2012/13 £'000
1,220	Benefit Subsidy owed by government	0
42	Other amounts owed by government	(1,174)
32	Amounts owed by housing tenants	264
(437)	Amounts owed by local taxpayers/ratepayers	20
(1,306)	Decrease in payments in advance	0
(1,130)	Amounts owed by Sundry Debtors	897
71	Change in Impairment Allowance	(639)
<u>(1,508)</u>	Movement in the year	<u>(632)</u>

24. Creditors

These amounts were due to be paid by the Council at 31 March 2012

2011/12 £'000		2012/13 £'000
(1,417)	PPE	
(1)	Short term Borrowing	0
(52)	Council Tax due to Preceptors	(407)
(1,952)	NNDR due to Pool	(3,267)
(39)	Long term Borrowing	0
(6,224)	Other items	(7,904)
<u>(9,685)</u>	Balance at 31st March	<u>(11,578)</u>

Movement in Creditors is mainly due to:

2011/12 £'000		2012/13 £'000
2,637	NNDR liability due to Pool	(892)
(254)	Other amounts owed to government	(842)
(6)	Amounts owed to Other Local Authorities	(390)
(124)	Amounts owed by housing tenants	(79)
(246)	Amounts owed by local taxpayers	(17)
(10)	Change in Finance Leases	209
(831)	Change in Developer contributions	3,582
415	Increase in Open Space funding	0
456	Increase in Sats contributions	0
799	Amounts owed to Sundry Creditors	(3,464)
(211)	Transferred from Finance Lease Liability	0
<u>2,625</u>	Movement in the year	<u>(1,893)</u>

25. Unusable Reserves

This category of reserves are held for statutory and accounting purposes, i.e. they are not available for the Council to use to finance expenditure. They are held for the following purpose:

- *Revaluation Reserve (see note (a))*
Store of gains on revaluation of fixed assets not yet realised through sales.
- *Available-for -Sale Financial Instruments Reserve*
Store of gains on revaluation of investments not yet realised through sales.
- *Capital Adjustment Account*
Store of capital resources set aside to meet past expenditure.
- *Financial Instruments Adjustment Account*
Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments.
- *Deferred Capital Receipts*
Recognises that amounts included in Long Term Debtors will produce capital receipts in the future.
- *Pensions Reserve*
Balancing account to allow inclusion of Pensions Liability in the Balance Sheet.
- *Collection Fund Adjustment Account (see note (b))*
Holds the balance owing to the Council at Balance Sheet date.
- *Accumulated absences reserve*
The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward.

2012/13	Revaluation balances		Adjustment accounts		Sub-total £'000
	Revaluation Reserve	Available for Sale Financial Instruments Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	
	£'000	£'000	£'000	£'000	
Balance at 31st March 2012	(13,537)	(44)	(84,882)	0	(98,463)
<i>Movements in Reserves during 2012/13</i>					
Other comprehensive income and expenditure	(1,077)	51			(1,026)
Adjustments between accounting and funding basis under regulations			(4,891)	0	(4,891)
Net increase or decrease before transfers to other reserves	(1,077)	51	(4,891)	0	(5,917)
Transfers to/from other Unusable reserves	582		(581)		1
Increase or decrease during 2012/13	(495)	51	(5,472)	0	(5,916)
Balance at 31st March 2013	(14,032)	7	(90,354)	0	(104,379)

2012/13	Adjustment accounts				Total Unusable Reserves £'000
	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	
	£'000	£'000	£'000	£'000	
Balance at 31st March 2012	(1,695)	50,258	(66)	106	(49,860)
<i>Movements in Reserves during 2012/13</i>					
Other comprehensive income and expenditure		2,175			1,149
Adjustments between accounting and funding basis under regulations	28	907	19	51	(3,886)
Net increase or decrease before transfers to other reserves	28	3,082	19	51	(2,737)
Transfers to/from other Unusable reserves	(1)				0
Increase or decrease during 2012/13	27	3,082	19	51	(2,737)
Balance at 31st March 2013	(1,668)	53,340	(47)	157	(52,597)

2011/12	Revaluation balances		Adjustment accounts		Sub-total
	Revaluation Reserve	Available for Sale Financial Instruments Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	
	£'000	£'000	£'000	£'000	
Balance at 31st March 2011	(10,690)	(413)	(204,421)	0	(215,524)
<i>Movements in Reserves during 2011/12</i>					
Other comprehensive income and expenditure	(3,289)	369			(2,920)
Adjustments between accounting and funding basis under regulations			119,998	0	119,998
Net increase or decrease before transfers to/from other reserves	(3,289)	369	119,998	0	117,078
Transfers to/from other Unusable reserves	442		(459)		(17)
Increase or decrease during 2011/12	(2,847)	369	119,539	0	117,061
Balance at 31st March 2012	(13,537)	(44)	(84,882)	0	(98,463)

2011/12	Adjustment accounts				Total Unusable Reserves
	Deferred Capital Receipts Reserve	Pensions Reserve	Collection Fund Adjustment Account	Accumulated Absences Account	
	£'000	£'000	£'000	£'000	
Balance at 31st March 2011	(1,653)	34,352	(5)	106	(182,724)
<i>Movements in Reserves during 2011/12</i>					
Other comprehensive income and expenditure		16,235			13,315
Adjustments between accounting and funding basis under regulations	(59)	(329)	(61)	0	119,549
Net increase or decrease before transfers to/from other reserves	(59)	15,906	(61)	0	132,864
Transfers to/from other Unusable reserves	17				0
Increase or decrease during 2011/12	(42)	15,906	(61)	0	132,864
Balance at 31st March 2012	(1,695)	50,258	(66)	106	(49,860)

(a) Revaluation Reserve:

2011/12 £'000		2012/13 £'000
	<i>Comprehensive Income and Expenditure Statement</i>	
(3,289)	Upward revaluation of assets	(1,077)
	Transfers to/from Capital Adjustment Account	
442	Difference between fair value depreciation and historical cost depreciation	396
	Accumulated gains on assets sold or scrapped	186
<u>(2,847)</u>	Increase or decrease during year	<u>(495)</u>

(b) Capital Adjustment Account

2011/12 re-stated £'000		2012/13 £'000
(11,099)	Sources of Finance	(5,906)
(1,195)	Sums set-a-side for capital purposes	(4,586)
132,292	Removal of items not chargeable to Fund Balances	5,601
(442)	Adjustment with Revaluation Reserve	(582)
(17)	Adjustment with Deferred Capital Receipts Reserve	1
<u>119,539</u>	Increase or decrease during year	<u>(5,472)</u>

26. Leases

The Code requires that all leases are reviewed and it determined whether they are either finance or operating leases.

- If a finance lease is determined, the asset/liability is shown on the balance sheet with the annual leasing payments being split between repayment, interest and service elements.
- If an operating lease is determined, the income/payments are shown in the Comprehensive Income and Expenditure Statement.

Authority as a Lessee

Finance Leases

The Council has leased the fourth floor of the Edinburgh Road Car Park. The following balance is included on the balance sheet.

2011/12 £'000		2012/13 £'000
<u>120</u>	Other land & Buildings	<u>120</u>

The Authority is committed to making the following payments for this lease, with a remaining life of 45 years.

	Repayment of principal	Service cost	Interest cost	Total lease payment
	£'000	£'000	£'000	£'000
Within 1 year	0	0	16	16
2 - 5 years	0	0	64	64
Later than 5 years	120	5	507	632
	<u>120</u>	<u>5</u>	<u>587</u>	<u>712</u>

Operating Leases

The authority has contracts for lease cars and has categorised these leases as operating leases. The Authority was committed as at 31 March 2012 to making lease payments as per the following table:

2011/12		2012/13
£'000		£'000
165	Within 1 year	132
184	2 - 5 years	102
0	Later than 5 years	0
<u>349</u>		<u>234</u>

Authority as a Lessor

Finance Leases

The Authority has leased the Ashford Indoor Bowls Centre to the Ashford Indoor Bowls Centre Ltd; the lease is for the majority of the assets life and therefore is to be treated as a finance lease. The remaining life of this lease is 42 years. The table below shows the income due on this lease:

	Principal receivable	Interest	Total lease payment
	£'000	£'000	£'000
Within 1 year	17	25	42
2 - 5 years	90	120	210
Later than 5 years	1,036	476	1,512
	<u>1,143</u>	<u>621</u>	<u>1,764</u>

Operating Leases

The Authority leases out property under operating leases for the different purposes. These include sports facilities, shops, and community assets. The income from these leases, calculated at current levels, is detailed in the table below:

2011/12		2012/13
£'000		£'000
268	Within 1 year	261
569	2 - 5 years	571
65	Later than 5 years	541
<u>902</u>		<u>1,373</u>

The Council owns, and rents out, a number of industrial units on short-term leases. The Income receivable for leases relating to industrial units is detailed below:

2011/12		2012/13
£'000		£'000
296	Within 1 year	255
286	2 - 5 years	450
	Later than 5 years	0
<u>582</u>		<u>705</u>

27. PFI and Similar Contracts

Stanhope PFI

On the 13 April 2007 the Council entered into a design, build, finance, and operate contract with the Chrysalis Consortium (the Contractor) for the provision of the regeneration of the Stanhope Estate and housing management services for the duration of the contract. The contract is for 30 years.

The total value of the contract was £140m, which included construction costs of £27m. The contract made provision for the Council to benchmark the housing management costs and re-negotiate the payments to the contractor; as a result of this benchmarking process in 2011/12 the value of the contract was reduced to £127m. Details of the PFI assets held on the balance sheet are included in note 16.

Under the terms of the contract the Council is required to make the following payments to the Contractor:

An annual unitary charge net of deductions for performance

- Capital contributions to infrastructure costs
- Pass through costs e.g. Disabled Facilities Grants.

These payments will be met from:

- The Council's existing revenue budget for the services, rental income and housing subsidy
- PFI Special Grant from Central Government

The payments to the Provider will be subject to indexation RPIX, and may vary by virtue of certain provisions within the contract. These primarily relate to the following:

- Performance and availability deductions
- changes in law which affect the costs of the service
- variations to the contract which are approved by the Council
- benchmarking of non-property related costs at agreed intervals (undertaken February 2012)

Analysis of Forecast Unitary Charge

	Repayment of liability £'000	Service cost £'000	Interest cost £'000	Total payment £'000
Within 1 year	269	2,659	1,044	3,972
2 - 5 years	1,645	10,636	4,056	16,337
6 - 10 years	3,558	13,295	4,628	21,481
11 - 15 years	5,610	13,295	3,822	22,727
16 - 20 years	8,146	13,295	2,600	24,041
21 - 25 years	8,903	10,685	868	20,456
	<u>28,131</u>	<u>63,865</u>	<u>17,018</u>	<u>109,014</u>

The PFI contract transfers risks from the Council to the contractor, as the Council retains ownership of the assets the risk to the Council in event of a contractor default is low. The Council monitors performance of the contractor against a range of Key Performance Indicators and can deduct money from the unitary

payment in the event that these measures are not achieved. A ratchet mechanism in the contract allows penalties to increase in the event of continued performance issues.

Extra Care Housing PFI

During 2007/08 the Council entered into a partnership arrangement with Kent County Council and nine other district councils within Kent to provide new homes for vulnerable people. The overall scheme is being funded by Public Finance Initiative credits over a 30 year period. In the event of the scheme ceasing the Council will be liable for:-

1. Contractor default, £4.275m in year 10, £4.125m in year 20
2. Force Majeure, £4.950m in year 10, £3.675m in year 20

Other Service Contracts

The Council's contracts for refuse collection and street cleansing which include elements, expired on 31/03/2013. These leases, included within the contracts, for vehicles and equipment solely used on the Councils contract. On expiry the finance leases relating to these contracts were fully written out of the Councils balance sheet.

The new contract covers three Councils, the equipment will be used in any area, and therefore as the Council does not have exclusive use of the assets and consequently there will not be an imbedded finance lease for the new contract. The total value of the contract is estimated to be £97m over 10 years to be allocated between the three contracting authorities.

28. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to account for this liability at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered locally by Kent County Council, is a funded defined benefit final salary scheme. This means the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The contribution rates are calculated by the Fund's Actuary to achieve this balance over the future estimated average working life of the Council's employees. This differs from the amounts recorded in the accounts which are based, as described above, in the immediate recognition of the liability rather than spreading the cost over a future period.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the Net Cost of Services, when employees earn these, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the difference is reversed out in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year.

2011/12 £'000		2012/13 £'000
Comprehensive Income & Expenditure Statement		
<i>Cost of Services:</i>		
1,770	- current service cost	2,258
0	- past service costs	0
5	- settlements and curtailments	159
<i>Financing and Investment Income and Expenditure</i>		
5,365	- interest cost	5,230
(4,388)	- expected return on scheme assets	(3,728)
2,752	<i>Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services</i>	3,919
<i>Other Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>		
(13,425)	- actuarial gains and losses	(7,773)
(2,810)	- actual return on scheme assets	5,598
(13,483)	<i>Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	1,744
Movement in Reserves Statement		
(2,752)	- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(3,919)
	- actual amount charged against the General Fund Balance for pensions in the year:	
3,081	employers' contributions payable to scheme	3,012
	retirement benefits payable to pensioners	
329		(907)

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

2011/12 £'000		2012/13 £'000
(98,400)	Balance at 1st April	(115,450)
(1,770)	Current service cost	(2,258)
(5,365)	Interest cost	(5,230)
(628)	Contributions by scheme participants	(619)
(13,425)	Actuarial gains and losses	(7,773)
3,882	Benefits paid - funded	4,221
261	Benefits paid - unfunded	267
(5)	Curtailments	(159)
(115,450)	Balance at 31st March	(127,001)

Reconciliation of fair value of the scheme assets:

2011/12		2012/13
£'000		£'000
64,048	Balance at 1st April	65,192
4,388	Expected value of return	3,728
(2,810)	Actuarial gains and losses	5,598
2,820	Employer contributions	2,745
628	Contributions by Scheme participants	619
(3,882)	Benefits paid	(4,221)
<u>65,192</u>	Balance at 31st March	<u>73,661</u>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Balance Sheet Disclosure

2009/10	2010/11	2011/12		2012/13
£'000	£'000	£'000		£'000
(116,484)	(95,401)	(112,438)	Present Value of Funded Obligation	(123,765)
54,077	64,048	65,192	Fair Value of Scheme Assets (bid value)	73,661
<u>(62,407)</u>	<u>(31,353)</u>	<u>(47,246)</u>	Net Liability	<u>(50,104)</u>
(3,428)	(2,999)	(3,012)	Present Value of Unfunded Obligation	(3,236)
<u>(65,835)</u>	<u>(34,352)</u>	<u>(50,258)</u>	Net Liability in Balance Sheet	<u>(53,340)</u>

The liability shows the Council's underlying long-term commitment to pay retirement benefits. Although the liability has a negative impact on the Council's equity position, statutory arrangements for the funding of the deficit mean that the financial position of the Council remains healthy.

The deficit on the Local Government Pension Scheme will be made good by increased contributions, as assessed by the scheme actuary.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Pension Fund's liabilities were assessed by Barnett Waddingham, an independent firm of actuaries; the last full valuation of the scheme was as at 31 March 2010. The next valuation, based on 31st March 2013, is underway and the results of this valuation will be known in Autumn 2013.

The principal assumptions used by the actuary were:

2011/12		2012/13
	Assumed life expectations from age 65 are:	
	Retiring today	
20.0	- Men	20.1
24.0	- Women	24.1
	Retiring in 20 years	
22.0	- Men	22.1
25.9	- Women	26.0
	Additional assumptions	
	- Members will exchange half of their commutable pension for cash at retirement	
	- Active members will retire one year later than they are first able to do so without reduction	
3.3%	Rate of inflation - Retail price index (RPI)	3.3%
2.5%	Rate of inflation - Consumer price index (CPI)	2.5%
4.7%	Rate of increase in salaries	4.7%
2.5%	Rate of increase in pensions	2.5%
4.6%	Rate for discounting scheme liabilities	4.3%

The Pension Fund's assets consist of the following categories, by value of the total assets held:

2011/12		2012/13
£'000		£'000
48,242	Equity investments	52,300
652	Gilts	0
6,519	Bonds	9,576
5,867	Property	5,893
2,608	Cash	2,946
1,304	Target return portfolio	2,946
<u>65,192</u>		<u>73,661</u>

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

2008/09	2009/10	2010/11	2011/12		2012/13
%	%	%	%		%
(33.1%)	22.0%	10.2%	(4.3%)	Differences between the expected and actual return on assets	7.6%
0.1%	0.5%	4.1%	0.0%	Experience gains and losses on liabilities	(0.2%)

29. Related Parties (information on elections)

Under the Accounting Standard IAS24 'Related Party Transactions' the Council must declare any Related Party Transactions between the Council and elected Members, Senior Officers of the Council or any of their close relatives. All Members and Senior Managers were written to requesting details of any relationships that could result in a related party transaction (For 2012/13 7 current Councillors did not submit a return). Where no return was submitted the register of members interests was examined to see whether any declaration was necessary, no material declarations were made.

During 2012/13, the only relationship that was declared and considered material was as a result of the Councils Governance arrangement with Ashford Future Company. Transactions totalling £0.124m have occurred, further details of the relationship with the company are included in the Explanatory forward, and notes 30 & 31.(2011/12 £1.6m).

There is a standing item on each Committee agenda requiring Members to declare any interest in any item to be discussed. The Democratic Services Manager keeps a record of all declarations made at meetings and a Register of Members' Interests, which is available for public inspection.

30. Interest in Companies

The Council is a founding partner in the Ashford Future Company. This Company, limited by guarantee, has been established to deliver the Government's growth agenda for Ashford. Following the ending of the Government's Growth Area Funding, the Council and its partners have taken the decision to wind down the company. All other partners resigned their directorships from the Company in June 2011 and subsequently left the partnership leaving the Council as the sole member of the company with the responsibility to wind down its affairs. The Leader of the Council is the sole director and the Deputy Chief Executive the company secretary. Both are acting in these roles at the request of the Council and do not receive any payment for these roles.

Wind down is currently being undertaken, and was anticipated to be completed by the summer 2013.

31. Contingent Liabilities

The Council has entered into an agreement with KCC relating to the provision of a Recuperative Care Centre at Farrow Court, Ashford. If the property ceases to be used for this purpose at any time during the 35-year life of the agreement, the Council will be liable to pay a proportion of the construction costs. The maximum possible liability was £350,000 but this reduces by £10k annually and currently stands at £260,000 and will reduce over the remaining period of the Agreement. There is no reason to believe that these circumstances will arise, and no provision

has been made in the Statement of Accounts for any future payments under this Agreement.

The Council is accepting the risk for the Sheltered Housing PFI jointly procured with KCC. The risk to the Council in the event of early termination of the contract is circa £4m. See Note 27 page 58 for further disclosures.

The Council is acting as a guarantor for the Pension Liabilities of Ashford Leisure Trust to permit its entry into the Kent County Council Superannuation Fund. In the event that the Trust fails to meet its obligations to the Fund the Council will be called upon to cover these liabilities. This cannot be quantified, as these will depend on the strength of the Fund at the time and the actuarial assumptions for the valuation of future liabilities.

The Council has agreed to indemnify Ashford Leisure Trust for any statutory redundancy costs from the cessation of the current temporary operational arrangements for the management of the Julie Rose Stadium. The amounts cannot currently be quantified.

The Council has entered into two agreements with Kent County Council and SEEDA (now Homes and Communities Agency (HCA)) which includes provision for the repayment of Regional Infrastructure Funding (RIF), used to pay for works to the Drovers Roundabout and the M20 junction 9 footbridge.

RIF funding has been awarded to Kent County Council for the schemes by HCA. A condition of the agreement is that, in the future, money collected from developers in respect of these works through the planning process by Ashford Borough Council will be paid to HCA. However, the Councils liability is limited to the total amount received in each case.

The Council has an exposure of up to £110,000 for claims from customers as a result of the Governments change in interpretation of the regulations for fee setting. As mentioned earlier in note 4.

32. Contingent Assets

A number of Councils are in the process of legal action against HM Revenue and Customs to recover VAT on car parking income. The Council has two protective claims for VAT in regards to off street parking income, totalling £2,606,647; the case is currently subject to an appeal by HM Revenue and Customs.

The Council has submitted a further claim to HM Revenue and Customs for VAT in regards to off street parking income, covering the period April 1974-March 1996, this totals £1,174,340. The case is currently subject to an appeal by HM Revenue and Customs.

The Council has successfully submitted claims to recover VAT paid on sports services, sports tuition and parking excess charges. Whilst the council has received the principal due and statutory interest; it has submitted a further claim for compound interest on these amounts. These claims are currently being considered by HM revenue and customs and it is currently not possible to estimate whether these claims will be successful or when they may be paid. The value of these claims is approximately £460,000 however costs will be incurred to pursue the claim.

The Council is seeking to recover certain additional costs incurred on the Stour Centre refurbishment project but it is not possible to estimate the likely outcome at this stage.

33. Events After The Balance Sheet Date

There were no events after the balance sheet date. Under the changes the the Government has made to the Local Government Funding regime, the Council now shares the liability for losses incurred through Business Rate appeals. The total figure is estimated to be as much as £2.5m over 5 years. The Council has a 40% share of this loss. This is a non-adjusting event.

34. Cash Flow Statement – Adjustment to Net Deficit on the Provision of Services for Non Cash Movement

2011/12 re-stated £'000		2012/13 £'000
	<i>Adjustment for items that are operating activities</i>	
(21,031)	Depreciation	(7,331)
5,375	Changes in valuation	4,024
(29)	Amortisation	(87)
(874)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(1,301)
(16,559)	Items relating to Capital Adjustment Account	(4,695)
69	Deferred sale proceeds	(17)
329	Movement in pension liability	(907)
3	Increase/decrease in inventories	0
(1,579)	Increase/decrease in debtors	85
71	Increase/(decrease) in impairment for bad debts	(639)
(413)	Contributions to/from Provisions	94
5,404	Increase/decrease in creditors	(1,795)
	Carrying amount of long term investments sold	
	Carrying amount of short term investments sold	
(334)	Other non-cash items charged to the net surplus of deficit on the provision of services	(43)
(13,009)	<i>Total non-cash adjustments of operating activities</i>	(7,917)

35. Cash Flow Statement - Adjustment to Net Deficit on the Provision of Services for Investing & Financing Activities

2011/12 re-stated £'000		2012/13 £'000
	<i>Adjustment for items that are investing and financing activities</i>	
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments	
1,382	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,311
36	Capital grants and contributions applied	576
0	Other items for which cash effects are investing or financing cash flows	10
<u>1,418</u>	<i>Total non-cash adjustments of investing and financing activities</i>	<u>1,897</u>

36. Cash Flow Statement - Operating Activities

2011/12 £'000		2012/13 £'000
2,363	Interest paid	3,497
(1,261)	Interest received	(265)
<u>1,102</u>	<i>Net cash flows from investing activities</i>	<u>3,232</u>

37. Cash Flow Statement - Investing Activities

2011/12 re-stated £'000		2012/13 £'000
12,453	Purchase of property, plant and equipment, investment property and intangible assets	7,606
55,300	Purchase of short-term and long-term investments	157,950
0	Other payments for investing activities	1
(1,382)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,311)
(64,957)	Proceeds from short-term and long-term investments	(159,450)
(37)	Other receipts from investing activities	(566)
<u>1,377</u>	<i>Net cash flows from investing activities</i>	<u>4,230</u>

38. Cash Flow Statement - Financing Activities

2011/12 re-stated £'000		2012/13 £'000
(126,213)	Cash receipts of short- and long-term borrowing	0
(2,637)	Other receipts from financing activities	
	- the difference between the cash collected from NNDR taxpayers and the amount paid into the pool	(1,315)
	- the difference for billing authorities in England between the preceptors' share of council tax cash collected and net cash paid to preceptors for their precept and settlement of the estimated surplus/deficit on the Collection Fund.	(355)
(49)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	167
21,300	Repayments of short- and long-term borrowing	1,500
520	- the difference for billing authorities in England between the preceptors' share of council tax cash collected and net cash paid to preceptors for their precept and settlement of the estimated surplus/deficit on the Collection Fund	
<u>(107,079)</u>	<i>Net cash flows from financing activities</i>	<u>(3)</u>

39. Cash Flow Statement - Makeup of Cash and Cash Equivalents

31 March 2012 £'000		31 March 2013 £'000
13	Cash held by the Council	6
(5,075)	Bank Current Accounts	(703)
3,300	Bank Call Accounts	6,640
<u>(1,762)</u>	Movement in the year	<u>5,943</u>

Supplementary Single Entity Statements Housing Revenue Account

The Housing Revenue Account (HRA) is a record of the revenue expenditure and income relating to Ashford Borough Council's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants; the HRA is a statutory account, ring-fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa).

2011/12 £'000		2012/13 £'000	
	<i>Expenditure</i>		
3,069	Repairs and maintenance	3,524	
4,206	Supervision and management	4,655	
44	Rents, rates, taxes and other charges	0	
3,210	Special services	2,570	
7,675	Negative HRA Subsidy payable	0	
3,627	Depreciation	5,445	
14,367	Impairment of non-current assets	(4,052)	
74	Debt management costs	2	
21	Movement in the allowance for bad debts	129	
113,713	HRA self-financing - revenue expenditure funded from capital under statute	0	
<u>150,006</u>	<i>Total Expenditure</i>		12,273
	<i>Income</i>		
(20,042)	Dwelling rents	(21,457)	
(491)	Non-dwelling rents	(481)	
(571)	Charges for services and facilities	(753)	
0	Leaseholder charges for services and facilities	(52)	
(332)	Contributions towards expenditure	(531)	
(3,000)	PFI Subsidy receivable	(3,000)	
<u>(24,436)</u>	<i>Total Income</i>		(26,274)
125,570	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(14,001)
512	HRA services' share of Corporate and Democratic Core		518
315	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services		343
<u>126,397</u>	Net Cost for HRA Services		(13,140)
	<i>HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:</i>		
(236)	Gain or (loss) on sale of HRA non-current assets		(529)
825	Payment to Housing Capital Receipts Pool		348
1,381	Interest payable and similar charges		3,742
	Interest payable on PFI contracts and Finance Leases		1,267
(55)	Interest and investment income		(26)
154	Pensions interest cost and expected return on pensions assets		241
<u>128,466</u>	(Surplus) or deficit for the year on HRA services		<u>(8,097)</u>

Notes to the Housing Revenue Account

1. Number and type of Housing Stock, Balance Sheet Opening and Closing Values

The breakdown of the numbers and types of HRA dwellings at 31 March 2013 is given in the table below:

31 March 2012		31 March 2013
<i>Units</i>	<i>Dwellings by type</i>	<i>Units</i>
3,517	Houses and bungalows	3,504
1,461	Flats, bedsits and maisonettes	1,458
80	New development dwellings	80
<u>5,058</u>		<u>5,042</u>
(323)	Less properties managed under Stanhope PFI	(320)
<u>4,735</u>		<u>4,722</u>

The opening and closing Balance Sheet values of HRA assets are shown below:

31 March 2012		31 March 2013
<i>£'000</i>		<i>£'000</i>
196,180	Operational assets - dwellings, land and buildings	196,801
22	Non-Operational assets	22
<u>196,202</u>		<u>196,823</u>

2. Vacant Possession Value of Dwellings

The vacant possession value of dwellings within the Council's HRA as at 1 April 2012 was £617,213,000 (£593,833,000 as at 1 April 2011); the reduction is partly due to the disposal of a number of PFI properties. The difference between this and the Balance Sheet value shows the economic cost to Government of providing council housing at less than open market rents.

This valuation exercise was completed by an external valuer (Savills).

3. Major Repairs Reserve

2011/12 £'000	<i>Movements in year</i>	2012/13 £'000
(3,913)	Balance at the end of the previous year	(3,010)
(3,627)	Amount transferred to the Reserve during the year	(5,200)
220	Amount transferred from the Reserve to the Housing Revenue Account during the year	
4,310	Debits to the Reserve in respect of capital expenditure on HRA land, houses and other property	4,526
<u>(3,010)</u>	Balance at the end of the financial year	<u>(3,684)</u>

4. Summary of Capital Expenditure and Financing

Field Code Changed

2011/12 £'000		2012/13 £'000
	<i>Capital investment:</i>	
4,310	Expenditure on dwellings	4,526
7,037	Expenditure on new developments	31
20	Expenditure on PV panels project	
113,713	HRA Subsidy Buyout	
<u>125,080</u>		<u>4,557</u>
	<i>Sources of Finance:</i>	
(147)	Capital Receipts	(31)
(3,676)	Government grants and contributions (Housing Communities Agency)	
(4,310)	Major Repairs Reserve	(4,526)
	Sums set aside from revenue	
(343)	- Direct revenue contributions	
(116,604)	Borrowing	
<u>(125,080)</u>		<u>(4,557)</u>

5. Capital Receipts from Disposal of Assets

Field Code Changed

2011/12		2012/13
£'000		£'000
(1,116)	Receipts from Right-to-buy sales	(957)
(19)	Receipts from the sale of Housing land	(122)
	Other non right-to-buy sales	(171)
45	Costs of disposal	39
<u>(1,090)</u>		<u>(1,211)</u>

6. Depreciation

Field Code Changed

The Housing Revenue Account for the year includes charges for depreciation of £5,444,000 (2011/2012, £3,627,067), summarised below:

2011/12		2012/13
£'000		£'000
3,408	Council dwellings	5,200
164	Council garages	195
53	New development	47
2	PV panels	2
<u>3,627</u>		<u>5,444</u>

The Council uses the Major Repairs Allowance as a proxy for depreciation for Council Dwellings.

7. HRA Subsidy

Field Code Changed

The HRA subsidy was abolished for 2012/13 the Council does still receive £3m of PFI grant per annum.

8. Pensions

Field Code Changed

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when benefits are eventually paid as pensions. However, the charge we are required to make against the Housing Revenue Account is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the Housing Revenue Account Balance. The following transactions have been made in the Income and Expenditure Account and the Movement in Reserves Statement.

2011/12 £'000		2012/13 £'000
	Comprehensive Income & Expenditure Statement	
	<i>Cost of Services:</i>	
0	- current service cost	363
280	- past service costs	
	<i>Financing and Investment Income and Expenditure</i>	
848	- interest cost	841
(694)	- expected return on scheme assets	(600)
434	<i>Total Post-employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>	604
	Movement in Reserves Statement	
(434)	- reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(604)
	- actual amount charged against the General Fund Balance for pensions in the year:	
446	employers' contributions payable to scheme	442

9. Rent Arrears

Field Code Changed

During the year 2011/12 arrears totalling £57,000 (£42,000 - 2011/12) were written off to the Impairment allowance for bad debts held outside the HRA as they were considered to be uncollectable. The balance on the provision at 31 March 2013 was £1,020,500 (£947,900 at 31 March 2012).

31 March 2012		31 March 2013
£'000		£'000
989	Gross arrears	1,096
(318)	Less Pre-payments	(478)
<u>671</u>		<u>618</u>

10. Valuations

Dwellings had a total impairment of £2,729,000 of which a total charge of £2,726,000 was made to the Housing Revenue Account. The Value of the Housing stock increased by £7,666,000, with £6,811,000 being credited to the Housing Revenue Account. Garages increased in value by £225,000.

Collection Fund

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund; it shows the transactions in relation to non-domestic rates, including distribution to government; and council tax, illustrating the way this has been distributed to precepting authorities and the General Fund.

2011/12 £'000		2012/13 £'000	£'000
	<i>Income</i>		
	Income from Council Tax		
(57,556)	- Council Taxpayers	(57,986)	
(7,700)	- Council Tax Benefits	(7,827)	(65,813)
(43,610)	Income from Business Rates		(44,616)
<u>(108,866)</u>	<i>Total Income</i>		<u>(110,429)</u>
	<i>Expenditure</i>		
	Precepts & Demand		
47,512	- Kent County Council	48,277	
6,289	- Kent Police Authority	6,390	
3,081	- Kent and Medway Fire Authority	3,131	
7,195	- Ashford Borough Council (including Parish Precepts)	7,325	65,123
	Business Rates		
41,743	- Payments to NNDR Pool	43,552	
177	- Costs of Collection Allowance	<u>179</u>	43,731
	Council Tax - Bad & Doubful Debts		
80	- Write-Offs	(2)	
492	- Allowance for Impairment	<u>314</u>	312
	NNDR - Bad & Doubful Debts		
991	- Write-Offs	776	
<u>698</u>	- Allowance for Impairment	<u>109</u>	885
	Contributions		
	- Towards previous year's estimated Collection Fund Surplus		567
<u>108,258</u>	<i>Total Expenditure</i>		<u>110,618</u>
(608)	Deficit/(Surplus) in Year		189
(49)	Balance at 1st April		(657)
<u>(657)</u>	Balance at 31st March		<u>(468)</u>
	<i>Apportionment of Balance to Preceptors/Borough Council</i>		
(494)	- Kent County Council		(352)
(65)	- Kent Police Authority		(46)
(32)	- Kent and Medway Fire Authority		(23)
(66)	- Ashford Borough Council		(47)
<u>(657)</u>			<u>(468)</u>

Notes to the Collection Fund

1. NNDR Rateable Value

Under the arrangements for Uniform Business Rates, the Council collects Non-Domestic Rates for its area, which is based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool; the NNDR pool managed by Central Government, which in turn pays back to authorities their share of the pool, based on a standard amount per head of local population.

2011/12 £'000		2012/13 £'000
	<i>Total Non-Domestic Rateable Values at:</i>	
112,772	- 1st April	113,176
113,176	- 31st March	114,775
404	Increase/(decrease) in year	1,599

2011/12 p		2012/13 p
	<i>Uniform rate (multiplier) set by the government:</i>	
42.6	For rateable values below £18,000	45.0
43.3	For rateable values £18,000 and above	45.8

2. Council Tax Base

The Council Tax Base, i.e. the number of chargeable dwellings in each valuation band (adjusted where discounts apply) converted into an equivalent number of Band D dwellings, was calculated as follows:

Band	2011/12			2012/13		
	<i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (a)</i>	<i>Multipliers (b)</i>	<i>Band D equivalents properties (a x b)</i>	<i>Estimated Number of properties (Net of exemptions, discounts & reliefs) (c)</i>	<i>Multipliers (d)</i>	<i>Band D equivalents properties (c x d)</i>
A with disabled relief	3.24	5 /9	1.80	2.50	5 /9	1.40
A	2,943.60	6 /9	1,962.40	3,018.20	6 /9	2,012.10
B	10,116.39	7 /9	7,868.30	10,370.10	7 /9	8,065.60
C	10,987.82	8 /9	9,766.95	11,127.30	8 /9	9,890.90
D	7,428.39	9 /9	7,428.39	7,682.30	9 /9	7,682.30
E	5,827.99	11 /9	7,123.10	5,843.50	11 /9	7,142.10
F	4,709.77	13 /9	6,803.00	4,769.20	13 /9	6,888.80
G	2,842.62	15 /9	4,737.70	2,851.60	15 /9	4,752.70
H	172.20	18 /9	344.40	170.70	18 /9	341.30
Sub-total			<u>46,036.04</u>			<u>46,777.20</u>
Estimated Collection Rate			98.5%			98.5%
Council Tax Base			<u>45,345.50</u>			<u>46,075.60</u>

3. Band D Council Tax

The band D level of council tax is the average level of tax charged as prescribed in legislation. When calculating the tax base, the number of properties is converted into band D equivalents and this is used when authorities set their council tax. If a property is within a parished area an additional charge will be made for the Parish Council.

2011/12		2012/13
£		£
1,047.78	Kent County Council	1,047.78
138.68	Kent Police Authority	138.68
67.95	Kent and Medway Fire Authority	67.95
140.67	Ashford Borough Council	140.67
<u>1,395.08</u>	Council Tax - basic amount	<u>1,395.08</u>
<u>28.75</u>	(including Parish Precepts)	<u>18.32</u>
<u>1,423.83</u>	Council Tax - Borough average	<u>1,413.40</u>

4. Precepts

The following Authorities made a significant precept or demand on the Collection Fund:

2011/12 £'000		2012/13 £'000
	Precepts	
47,512	- Kent County Council	48,277
6,289	- Kent Police Authority	6,390
3,081	- Kent and Medway Fire Authority	3,131
<u>56,882</u>		<u>57,798</u>
	Demand	
6,379	- Ashford Borough Council	6,481
816	- Parish Precepts	844
<u>64,077</u>		<u>65,123</u>

There are 39 Parish Councils that levy precepts within the Borough, the most significant of which were:

2011/12 £'000		2012/13 £'000
197	Tenterden Town Council	202
64	Kingsnorth	70
48	Charing	50
48	Biddenden	48
44	Great Chart with Singleton	52
43	Wye with Hixhill	43

Independent Auditor's report to the Members of Ashford Borough Council

Opinion on the Authority financial statements

We have audited the financial statements of Ashford Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Ashford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of the Deputy Chief Executive's Responsibilities, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Ashford Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Ashford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Ashford Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack, Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

26 September 2013

Glossary update

Agency Services – services which are performed for another Authority or public body, where the principal Authority responsible for the service reimburses the agent Authority doing the work for the cost of the work carried out.

Amortised – the deduction of capital expenses over a specific period of time. Similar to depreciation, it is a method of measuring the consumption of the value of long-term assets like equipment or buildings and intangible assets e.g. software.

Appointed Auditors – external auditors of Local Authorities appointed by the Audit Commission. In Ashford's case, this function is carried out by Grant Thornton.

Audit Commission – an independent body, established under the Local Government Finance Act 1982. The Audit Commission is responsible for appointing external auditors to Local Authorities and setting standards for those auditors, carrying out national studies to promote economy, efficiency and effectiveness in the provision of Local Authority services and defining comparative indicators of Local Authority performance that are published annually.

Budget – a statement defining the Council's policies for a year in terms of finance.

Budget Requirement – the estimated revenue expenditure on General Fund services that needs to be financed from Council Tax, after deducting income from fees and charges, certain specific grants and any funding reserves.

Capital Expenditure – spending on the acquisition, construction, enhancement or replacement of tangible assets such as land, buildings or major items of equipment, which will be used to provide services for a number of years. Under statutory determination expenditure on assets not belonging to the council can be treated as capital expenditure.

Capital Financing – funds used to pay for capital expenditure.

Capital Receipts – the proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure within the rules set down by the Government, but they cannot be used to finance revenue expenditure. Capital Receipts can be used for debt repayment.

CIPFA – The Chartered Institute of Public Finance and Accountancy is the leading professional accountancy body for public services in the UK. CIPFA has responsibility for setting good practice accounting standards for Local Government.

Collection Fund – a statutory fund maintained by a Billing Authority, which is used to record local taxes and non-domestic rates collected by the Authority, along with

payments to major precepting authorities, the national pool of non-domestic rates and its own general fund.

Componentisation – An accounting term that covers the practice of splitting an asset into its component parts (e.g. Walls, Roof, Lift, Boiler) to determine the appropriate value and depreciation basis for each component.

Contingent Liability – a potential liability at the Balance Sheet date. If the liability cannot be estimated reasonably accurately, it must be disclosed as a note to the Statement of Accounts.

Council Tax – the main source of local taxation to Local Authorities. Council Tax is levied on all domestic households within the Council's area.

Council Tax Benefit – assistance provided to adults on low incomes to help them pay their Council Tax bill. The cost of Council Tax benefit is wholly met by government grant. This has been abolished for 2013/14.

Credit Risk - the possibility that other parties might fail to pay amounts due to the Council

Creditors – money owed by the Council to others.

Debtors – money owed to the Council by others.

Fair Value - is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Force Majeure – is a common clause in contracts which essentially frees both parties from liability or obligation when an extraordinary event or circumstance beyond the control of the parties, such as war, strike, riot, crime, act of nature e.g. flooding, earthquake, volcano, prevents one or both parties from fulfilling their obligations under the contract.

General Fund – the main revenue fund of the Authority. Day-to-day spending on services is met from the fund. Spending on the provision of housing, however, must be charged to a separate Housing Revenue Account.

Gross Expenditure – the total cost of providing the Council's services before taking into account income from Government grants and fees and charges for services.

Housing Benefit – the allowance to persons on low income or unable to meet, in whole or part, their rent. Benefit paid to the Authority's own tenant is known as **rent rebate** and that paid to private sector tenants as **rent allowance**.

Housing Revenue Account HRA – account which sets out the expenditure and income arising from the provision of housing. The HRA is funded by specific housing grants and rents payable by the Council's tenants.

Impairment – An accounting term that covers the loss in value of an asset either through consumption of its economic life or a change in its usefulness. For example, fire damage.

Internal Audit – a specialist section of the Council that examines, evaluates and reports on the adequacy of internal control systems and the proper, economic, efficient and effective use of resources.

International Financial Reporting Standards – The accounting standards that have been produced and adopted to govern accounting and move to a globally similar basis.

Liquidity Risk - the possibility that the Council might not have funds available to meet its commitments

Market Risk - the possibility that losses may arise due to changes in interest rates and market prices.

MRP – Minimum Revenue Provision. This is the calculation that Councils make for the repayment of debt.

National Non-Domestic Rate NNDR – a levy on businesses, based on a national rate in the pound set by the Government multiplied by the 'rateable value' of the premises they occupy. NNDR is collected by Billing Authorities on behalf of Central Government and then redistributed among all Local Authorities and police authorities on the basis of population.

Net Expenditure – gross expenditure minus specific service income and grants, but before deduction of Revenue Support Grant and reallocated NNDR receipts.

Outturn – actual income and expenditure in a financial year.

Partial Exemption– a VAT term which ensures that a Local Authority does not recover VAT on Inputs that relate to the generation of exempt income more than the 5% of the total VAT recovered.

Pension Fund – an employees' pension fund maintained by an Authority, or group of Authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing Authority, the employee and investment income. Ashford participates in a pension fund that covers all Kent Authorities.

Precept – the levy made by precepting authorities on Billing Authorities, requiring the latter to collect income from Council taxpayers on their behalf. County councils, police

authorities, fire and rescue authorities are major precepting authorities and Parish Councils are local precepting authorities.

Private Finance Initiative PFI – a Central Government initiative which aims to increase the levels of funding available for public services by attracting private sources of finance. The PFI is supported by a number of incentives to encourage Authorities' participation.

Provisions – amounts set aside for specific liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. The value of the Provision must be the best estimate of the likely liability or loss.

Reserves – amounts set aside to meet general, rather than specific future expenditure. These include “other reserves” to be spent on specific services or functions and “general reserves” or 'balances' which every Authority must maintain as a matter of prudence. Sums may be put into or taken from reserves at the Council's discretion. The Council also maintains unuseable reserves that are established by the code of practice to offset non current assets.

Revenue Expenditure – the day-to-day running costs of providing services.

Revenue Expenditure Funded from Capital Under Statute – expenditure that does not result in the creation of a fixed asset but is classified as capital expenditure for Capital Control purposes.

Revenue Support Grant RSG – a grant paid by Central Government to aid Local Authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Specific Grants – grants from Central Government which may only be used for a specific purpose.

Treasury Management – management of the Council's cash balances on a daily basis, to obtain the best return while maintaining an acceptable level of risk

Annex 1 Restatement of 2011/12 and 2010/11 Comparators

The adjustments are discussed within the Explanatory forward, see page 2. The Council has previously held amounts from Developers within its creditor balances, however it is now felt that these items would be more correctly treated within earmarked reserves due to it being unlikely that the conditions of these grants will not be met and the amounts repaid. Consequently a restatement has been made.

It has been identified that a deferred capital receipt needs to be established for the income due from the Bowls centre lease, this has been created with a corresponding entry in the capital adjustment account which increased the capital financing requirement.

Balance Sheet as at 31st March 2011	as originally stated £'000	as re-stated £'000	Re- statement £'000
<i>Total Long term assets</i>	270,463	270,463	0
<i>Total Current assets</i>	23,780	23,780	0
Current liabilities			
Short term creditors	(15,416)	(12,311)	3,105
Grant Receipts in Advance - Capital	(2,487)	(13)	2,474
<i>Total Current liabilities</i>	(28,208)	(22,629)	5,579
<i>Total Long term liabilities</i>	(69,078)	(69,078)	0
Net Assets	196,957	202,536	5,579
Reserves			
Earmarked Reserves	(3,340)	(6,882)	(3,542)
Capital Grants Unapplied	0	(2,037)	(2,037)
<i>Total Usable reserves</i>	(14,233)	(19,812)	(5,579)
Capital adjustment account	(205,580)	(204,421)	1,159
Deferred Capital Receipts Reserve	(494)	(1,653)	(1,159)
<i>Total Unusable reserves</i>	(182,724)	(182,724)	0
	(196,957)	(202,536)	(5,579)

Effect on Comprehensive Income and Expenditure Statement 2011/12	Originally stated 2011/12 Net Expenditure £'000	Re-stated 2011/12 Net Expenditure £'000	Amount of Re- statement £'000
Cultural and related services	360	517	157
Environmental and Regulatory Services	5,197	5,324	127
Highways and transport services	(703)	(506)	197
Non Distributed Costs	1,552	649	(903)
Cost of Services	139,077	138,655	(422)
Taxation and Non-specific grants	(20,095)	(18,063)	2,032
(Surplus) or Deficit on the provision of services	121,671	123,281	1,610
Total comprehensive income and expenditure	134,986	136,596	1,610

Balance Sheet as at 31st March 2012	31 March 2012	31 March 2012	Re-
	as originally stated £'000	as re-stated £'000	statement £'000
<i>Total Long term assets</i>	254,547	254,547	0
<i>Total Current assets</i>	21,580	21,580	0
Current liabilities			
Short term creditors	(13,167)	(9,686)	3,481
Grant Receipts in Advance - Capital	(502)	(14)	488
<i>Total Current liabilities</i>	(15,170)	(11,201)	3,969
Long term liabilities			
Long term creditors	n/a	0	
<i>Total Long term liabilities</i>	(198,986)	(198,986)	0
Net Assets	61,971	65,940	3,969
Reserves			
Earmarked Reserves	(3,617)	(7,537)	(3,920)
Capital Grants Unapplied	0	(49)	(49)
<i>Total Usable reserves</i>	(12,111)	(16,080)	(3,969)
Capital adjustment account	(86,024)	(84,881)	1,143
Deferred Capital Receipts Reserve	(553)	(1,696)	(1,143)
<i>Total Unusable reserves</i>	(49,860)	(49,860)	0
	(61,971)	(65,940)	(3,969)

Movement in Reserves Statement – Usable reserves	As	As re-stated	Re-
	previously stated 2011/12 £'000	2011/12 £'000	statement 2012 £'000
Balance at the end of the previous reporting period 31st March 2011	(14,233)	(19,812)	(5,579)
Surplus or Deficit on the Provision of Services	121,671	123,281	1,610
Adjustment between accounting basis and funding basis under regulations	(119,549)	(119,927)	(378)
Transfers to/from Earmarked Reserves	0	378	378
Increase or Decrease in the year	2,122	3,732	1,610
Balance at the end of the current reporting period 31st March 2012	(12,111)	(16,080)	(3,969)

Adjustments under regulations	General Fund Balance	Capital Grants Unapplied
Amounts before restatement	7,177	0
Capital grants and contributions applied	(2,069)	
Capital Expenditure charged against the General Fund and HRA Balances	45	
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	36	(36)
Application of grants to capital financing transferred to the Capital Adjustment Account		2,024
	<u>5,189</u>	<u>1,988</u>

The Audit Findings for Ashford Borough Council

Year ended 31 March 2013

26th September 2013

Andy Mack

Director

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Steve Golding

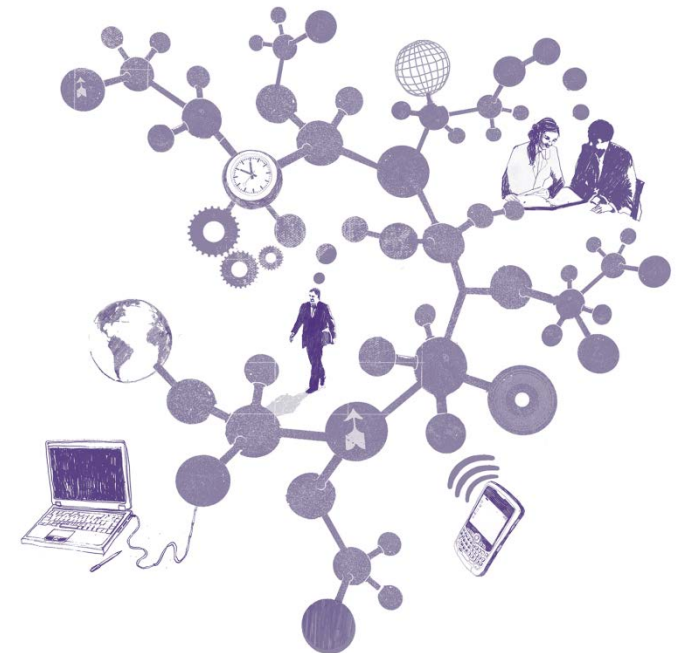
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Appendices

- A Action plan
- B Audit opinion
- C Overview of audit findings

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Ashford Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 5th March 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of initial audit testing in respect of housing and council tax benefits

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- auditing the Council's Whole of Government Accounts return

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified five adjustment to the statements. These relate primarily to classification errors, and do not impact upon the Council's net expenditure or revenue balances. We have also agreed a number of changes to the disclosure notes to the accounts, to aid the clarity and presentation of the statements.

The key messages arising from our audit of the Council's financial statements are:

- The quality of the financial statements and working papers provided to support them was of a good standard.
- There were no amendments arising from the audit which impacted on the Council's reported financial performance
- We are concerned that declaration forms in respect of related party transactions were not received from 4 Councillors this year.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention, other than in respect of the failure to obtain related party declarations from some Members.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Deputy Chief Executive and Finance Manager.

We have made one recommendation, which is set out in the action plan in Appendix A. The recommendation has been discussed and agreed with the Deputy Chief Executive

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
26th September 2013

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 5th March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 5th March 2013.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>Following our interim audit visit in January 2013 we recommended that the Finance Manager should undertake a monthly review of all material journals. This recommendation was adopted, and the control is operating effectively.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> • Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. • Attribute testing on material expense streams • Assess the method of allocating/apportioning expenses to functional categories for compliance with the Service Reporting Code of Practice • Cut-off testing 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> • Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. • Performance of attribute testing on payroll expenses 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> • Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. • Substantive testing of a sample of benefit claims • Reconcile benefit expenditure to the benefit subsidy claim and assess the impact of any significant differences • Complete benefit software diagnostic tool, uprating checks and analytical review compared to prior year subsidy claim 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our testing of welfare expenditure is in progress.</p>




Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.


Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Housing Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> • Activity level controls were identified and a walkthrough of the system was completed during the interim visit in January 2013. • Testing of key controls • Complete analytical review of rental income • Update of key controls for quarter four transactions • Cut-off testing 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Key revenue recognition policies include: <ul style="list-style-type: none"> Revenue for goods and services is recognised when performance occurs Interest revenue is accrued on a time basis 	<ul style="list-style-type: none"> The policies adopted for revenue recognition are appropriate under the Council's accounting framework. Our testing indicates that revenue for goods and services included in the financial statements has been calculated based on contributions and contract values. Disclosure of accounting policies in the financial statements is in line with the recommended disclosures in the CIPFA Code of Practice on Local Government Accounting in the UK 2012/13 supported by International Reporting Standards. 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of capital equipment Pension fund valuations and settlements Revaluations and impairments Provisions and Accruals 	<ul style="list-style-type: none"> The policies adopted for accounting estimates are appropriate under the Council's accounting framework Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions The range of possible outcomes has been considered Disclosure of accounting policies in the financial statements is in line with the recommended disclosures in the CIPFA Code of Practice on Local Government Accounting in the UK 2012/13 supported by International Reporting Standards. 	 Green
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	 Green

Assessment

 (RED) Marginal accounting policy which could potentially attract attention from regulators disclosure

 (GREEN) Accounting policy appropriate and disclosures sufficient

 (AMBER) Accounting policy appropriate but scope for improved

Adjusted misstatements

Five adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustment arising from the audit which has been processed by management.

Impact of adjusted misstatements

The adjustment did not impact upon the reported financial position of the Council.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 A write off adjustment of £108k on Housing rents was included in the creditor balance- this should not be a creditor and should be netted off against the debtor.	0	creditors (108) debtors 108	0
2 Accrued interest on PWLB borrowings has been included within the long term liability. This element is due within one year and should therefore be a current liability.	0	LT liabilities (193) ST liabilities 193	0
3 £520k of debit balances included in sundry creditors which should be classified as debtors.	0	creditors (520) debtors 520	0
4 A number of changes were made to correct the cash flow statement, which was substantially rewritten. This did not impact upon the financial position of the Council	0	0	0
5 Section 106 monies incorrectly recorded within non distributed costs line on CIES (£953k) also 11/12 (£903k) to be split over highways & transp (£625k) (£411k 11/12) and cultural (£133k) (£28k 11/12) and environment (£154k) (£447k 11/12) and planning (£41k) (£17k 11/12)	Non distrib costs (953) Various services 953	0	0
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	n/a	Some amendments were agreed to disclosure notes during the course of the audit. The main amendments were in respect of: . Financial Instruments (Note 21), Creditors (Note 24), Defined Benefit Pension Scheme (Note 28), Cash Flow Statement (Note 39) and HRA (Note 10).

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

It is a requirement of International Accounting Standard 24, as contained within the Code of Practice on Local Authority Accounting, that all Councillors and senior officers should complete an annual form disclosing any related party relationships between themselves and/or close family members and the Council during the financial year subject to audit. It is also a requirement to disclose any relationship with a company or other body with whom the Council has had financial transactions during the year.

These declarations have three important functions:

- to demonstrate the transparency of the Council's financial affairs;
- to provide assurance that Councillors and senior officers have acted with probity and good conduct in respect of the stewardship of public funds; and
- as an important element of the Council's governance framework.

At the time of our audit visit, declaration forms had not been received from 6 Councillors in respect of 2012/13. Despite the best efforts of officers and the Leader, returns have still not been received from 4 Councillors. Of particular concern is that one of these Councillors is a member of the Council's Planning Committee, which is a body where transparency in respect of Members interests is especially important.

To gain the audit assurance that we require before issuing our audit opinion, we have made specific reference to this matter in our Letter of Representation.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any incidents of fraud in the period and no other issues have been identified during the course of our audit procedures
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council. We have requested additional assurances from management in respect of those Councillors that have not completed related party disclosure forms.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed, but as noted above we are seeking additional written representations on this issue.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:





- Financial governance;
- Financial planning; and
- Financial control

In addition, we examined the Council's financial performance on selected financial key performance indicators in comparison to other similar councils. This focused on liquidity ratio, reserve levels, borrowing, sickness absence and performance against budget.

We have summarised our assessment against these four areas overleaf.

Overall our work highlighted that despite the challenging financial environment and sustained period of budgetary constraint the Council has continued to exercise a prudent medium term financial strategy. Financial planning and budget monitoring processes are robust, and savings targets were achieved in 2012/13 although targets for the next three years remain challenging, and further financial savings will need to be identified.

Value for Money (continued)

Risk Area	Summary Observations	High Level Risk Assessment
Key Indicators of Performance	The Council's key financial indicators demonstrate a track record of strong performance and a healthy financial position. The working capital ratio is high, useable reserve levels are healthy and budgetary control is strong. Whilst long term borrowing is high for the statistical group, this is entirely due to the HRA debt. Tax revenues are slightly below the group average. Working days lost to sickness remain well below the national average.	 Green
Financial Planning	The Council has a strong financial planning framework. The Medium Term Financial Plan clearly sets out savings plans and risks for the coming years, and is aligned with the 5 year Business Plan.. Zero based budgeting and option appraisals have been applied as part of the budget setting process.	 Green
Financial Governance	The Council has good arrangements for financial governance. A robust audit & scrutiny framework is in place, and is operating effectively	 Green
Financial Control	The Council has a strong track record on delivering budgets and savings plans, with the Budget Scrutiny Task Group playing a crucial role in budget setting and monitoring achievement of savings targets. Internal audit has given a positive opinion on controls for 2012/13 .	 Green

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and found this to be satisfactory.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
<p>Financial Resilience: Since the Chancellor's Autumn statement in 2010, central government funding has been reducing year on year. This poses an increasingly significant challenge to the authority in balancing its budget in future years.</p>	<p>We have reviewed the Council's arrangements for securing financial resilience in 2012/13.</p>	<p>Our overall summary against the four arrangements areas we assessed is:</p> <ul style="list-style-type: none"> • Key indicators of performance – Green • Strategic financial planning – Green • Financial Governance – Green • Financial Control – Green <p>(see page 19)</p>
<p>Local government reforms The Local Government Finance Act 2012 introduced amendments to council tax support arrangements and business rate retention. These changes increase the council's exposure to finance risks and could have a significant impact on the authority's funding</p>	<p>We have reviewed the Council's arrangements for introducing council tax support and business rate retention for 2013/14 onwards.</p>	<p>The Council has made appropriate arrangements to introduce the council tax support and business rate retention schemes. The Council has recognised the risk of uncertainty over reforms, particularly business rates, as a risk. These risks have been incorporated into required savings within the Medium Term Financial Plan.</p>
<p>Shared service arrangements The Council has committed to a small number of shared service arrangements with MKIP partners in recent years. These include Internal Audit and waste management. There is a risk that anticipated savings from these arrangements are not achieved.</p>	<p>We have reviewed the Council's arrangements in terms of monitoring partnerships, with particular attention to the waste management contract.</p>	<p>The Council has sound arrangements in place to monitor its partnerships. The savings arising from the waste management contract are a crucial element of the Council's medium term financial plans over the next few years, and these will need to be monitored closely if targets are to be achieved.</p>
<p>Business planning The Council has adopted a 5 year Business Plan. There is a risk that it might not be aligned to the Medium Term Financial Plan (MTFP)</p>	<p>We have reviewed the Council's business planning process to assess the extent to which it is effectively integrated with the MTFP.</p>	<p>Extensive consultation with stakeholders and staff was carried out in order to compile the 5 year business plan. The 5 year MTFP was aligned with the business plan objectives and thus forms the basis of the annual budgets.</p> <p>The cabinet receives quarterly business plan performance reports, which assesses the performance against the 4 priority areas set out in the 5 year business plan. This also includes an overview of principle front line services such as customer services, planning, housing and revenues and benefits with supporting data that is prepared on the same basis each quarter to allow comparison.</p>

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and separate work undertaken by our Government & Infrastructure Advisory Team.

Fees

	Per Audit plan £	Actual fees £
Council audit	79,515	79,515
Grant certification	12,700	*12,700
Total audit fees	92,215	92,215

* Certification work is on-going. The final fee will be reported to the Audit Committee later in the year in our annual certification report.

Fees for other services

Service	Fees £
Review the assumptions of the financial model for the Property Company	10,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should ensure that related party declaration forms are completed annually by all Councillors.	High		2013/14 accounts closedown

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ASHFORD BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Ashford Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Ashford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of the Deputy Chief Executive's Responsibilities, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Ashford Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Ashford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Ashford Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Andy Mack, Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

XX September 2013

Appendix B: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 15th July 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None to date (audit work in progress)
Cost of services – Housing revenue	Housing Revenue Account	Other	Housing revenue transactions not recorded	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
Revenue support grant and other Government grants	Grant Income ⁹	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	None		No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cash & cash equivalents	Bank & Cash	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	Non material classification error due to netting
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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Date: 26 September 2013

Dear Sirs

**ASHFORD BOROUGH COUNCIL
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013**

This representation letter is provided in connection with the audit of the financial statements of Ashford Borough Council for the year ended 31 March 2013, for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code. Where Members have not provided annual declarations of their related party transactions, we have undertaken sufficient additional checks to ensure that there are no related party transactions that should be accounted for and disclosed.
- viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code require adjustment or disclosure have been adjusted or disclosed.
- ix The financial statements are free of material misstatements, including omissions.
- x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xii We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xiii We have communicated to you all deficiencies in internal control of which management are aware.

- xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xvi There has been no fraud or suspected fraud affecting the Council and therefore there has not been a need to make any disclosure to you regarding any affects involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where a fraud could have a material effect on the financial statements.
- xvii There have not been any instances requiring disclosure to you in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others, as no such representations have been made to the Council.
- xviii There have not been any instances requiring disclosure to you of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

- xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 26th September 2013.

Signed on behalf of the Council

Name.....

Position.....

Date.....

Agenda Item No: 6
Report To: AUDIT COMMITTEE



Date: 26/09/2013

Report Title: **Annual Governance Statement 2012/13 – progress on remedying exceptions**

Report Author: Nicholas Clayton, Policy and Performance Officer

Summary: This short paper follows on from the report to the June meeting of the committee which agreed the 2012/13 Annual Governance Statement. This report explains progress against the areas for continued work which was included in the Annual Governance Statement agreed by the committee at the June meeting. This highlighted the following matters:

- a) The Leader's wish that there be a refocusing of council priorities and further cultural development to consolidate the direction that is currently set out in the business plan and Cabinet's previous position statement
- b) The Leader's proposal for a further review of some aspects of the constitution to reinforce the principle of inclusivity and to clarify delegations
- c) Production of an annual report
- d) Updating the 2007 Code of Corporate Governance
- e) Procurement strategy review

Key Decision: NO

Affected Wards: ALL

Recommendations: **The Audit Committee be asked to note the progress to date on resolving the governance exceptions identified in the 2012-2013 Annual Governance Statement.**

Financial Implications: None

Policy Overview: Good standards of corporate governance are essential in all organisations. The council's arrangements are longstanding, well-developed and generally are found to be effective. The annual governance statement is the opportunity to review any need for change or further work. Areas highlighted are important to consider in the context of a changing policy and operating landscape, given legislative change and downward pressures on resources.

Risk Assessment The annual review of the governance statement amounts to an assessment of the adequacy of the council's overall arrangements to the management of governance and risk.

**Background
Papers:**

Annual Governance Statement 2012-13

Contacts:

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

Report Title: Annual Governance Statement – progress on remedying exceptions for 2012-13

Purpose of the Report

1. To explain progress with reviewing the areas of significant governance highlighted by the 2012-2013 annual governance statement

Issue to be Decided

2. Members are being asked to note progress.

Significant areas of governance requiring review

3. Five areas were highlighted in the June 2012-2013 Annual Governance Statement as continuing to need work during 2013 and beyond.

(a) Refocusing council priorities and consolidating the business plan's direction

Progress: A new document, '*Focus 2013-15*', has been put together, and this will be put to Cabinet in October 2013 for approval. Based on extensive consultation with residents and businesses in 2010/2011, the five year business plan was developed; this new amalgamation of business and corporate priorities looks back at the achievements between 2010 and 2013 and refocuses the council's direction for the remainder of the plan – i.e. from now until 2015. It is intended to provide justification for (and be the basis of) all the projects and priorities that the council wishes to pursue over the next 18 months. A further consultation exercise will be undertaken prior to the production of the next corporate plan.

(b) Further review of the constitution to reinforce the principle of inclusivity and to clarify delegations

Progress: Scheduled to be completed during the remainder of 2012/13

(c) Production of an annual report

Progress: Following commitment from the Leader within the 2012/13 Annual Governance Statement, consolidation of the council's direction within a new priorities document ('*Focus 2013-15*') would be mirrored by the production of an annual report. Following-on from anticipated endorsement of *Focus 2013-15* in the autumn, the first annual report is due to be produced for March 2014. Preliminary research and consultation is currently ongoing as to appropriate styles, potential content (particularly in terms of the balance between text and pictures), and sector-wide best practice. Concurrently, quarterly performance reporting (which will now reflect the refreshed priorities enshrined within *Focus 2013-15*) will continue to compile performance information which will serve as a basis for at least part of the annual report.

(d) Updating the 2007 Code of Corporate Governance

Progress: Scheduled to be completed during the remainder of 2012/13.

(e) Procurement Strategy Review

Progress: A revised council-wide procurement strategy is being compiled and is due to go before the Cabinet in the Autumn.

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

Agenda Item No: 7
Report To: Audit Committee
Date: 26th September 2013
Report Title: Six Monthly Strategic Risk Review
Report Author: Ian Cumberworth - Audit Manager



Summary:	The report sets out the position in respect of the Council's Strategic Risk Management arrangements.
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Key Decision: NO

Affected Wards: N/A

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

1. Note the strategic risk management arrangements in place for 2013/2014
2. Confirm that it is satisfied with the action that is being taken to manage the Council's strategic risks

Policy Overview: The Strategic Risk Register provides a means of 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 of the report

Equalities Impact Assessment No

Other Material Implications: None

Background Papers: None

Contacts: Ian Cumberworth– Tel: (01233) 330442

Report Title: Strategic Risk Review

Purpose of the Report

1. The report sets out the arrangements in place for Strategic Risks.
2. Management Action Plans were updated and amended in August 2013 to reflect the action being taken to manage the risks
3. The Audit Committee is responsible for ensuring the effective development and operation of risk management. The Committee therefore needs to be satisfied with the action that is being taken to manage the Council's strategic risks.

Issue to be Decided

4. The Audit Committee is asked to confirm that it is satisfied with the action that is being taken to manage the Council's strategic risks

Background

5. The Council is committed to the effective management of risk and engaged a risk consultant from Zurich Municipal to assist with a fundamental review of the Authorities risk arrangements in 2012.
6. This report sets out the position as at 31st August 2013.
7. The Council, through the Audit Committee, has monitored and reviewed the Strategic Risk register during the year and has adjusted the risk profile accordingly to reflect the changing risk environment.
8. The 'risk owners' are senior managers whose role makes them best placed to manage the identified risk. The Management Action Plan shows the risk and the risk owner, the current risk score and the target score, a description of the risk and the 'vulnerability' i.e. the context for the risk. The 'current risk score' incorporates a traffic light approach (red, amber, green) to reflect where the risk appears on the risk matrix. The consolidated risk profile matrix is shown at Appendix 1.
9. The risk register is a living document and is kept under review throughout the year and is amended when necessary to reflect changes in the risk environment. Risk reports are considered by Audit Committee Members throughout the year.
10. Detailed management action plans developed to manage each risk.

11. The table below sets out the movements in the risks since February 2013 to the 31st August 2013.

	<u>Corporate Strategic Risk (CSR)</u>	<u>Target Score</u>	<u>Score as at February 2013</u>	<u>Movement</u>	<u>Current score August 2013</u>
1a	Economic Growth	3/2	4/3	↔	4/3
1b	Right mix of quality housing	3/3	4/3	↔	4/3
2	Income Streams	5/2	6/3	↔	6/3
3a	Community Demands	2/2	3/2	↔	3/2
3b	Consequences of Universal Credit	3/3	4/3	↔	4/3
4	Opportunities for Localism	2/3	3/3	↔	3/3
5	Workforce Planning	3/2	4/3	↔	4/3
6	Members skills, capacity & experience	2/2	3/2	↔	3/2
7	Business Plan	3/3	4/3	↔	4/3
8	Housing	3/3	4/3	↔	4/3
9	Infrastructure	5/3	6/3	↔	6/3

12. It can be seen that there has been no movement in the risk scores over the period.
13. The action plans set out the target score for each risk to move to and the actions being taken by management to manage/mitigate the risks together with details of the risk vulnerability. All action plans have previously been considered and agreed by Management Team, Cabinet and Audit Committee.
14. The detailed action plans at Appendix 2 show
- The action/control that is already in place – these are the controls that already mitigate the potential effect of the risk
 - Whether the action/control is adequate to address the risk
 - The further action that needs to be taken to adequately manage the risk
 - Critical success factors – how we will know that the risk is being addressed
 - Review frequency – how often the risk management action needs to be reviewed

- Key dates – the key dates affecting the management of the risk
15. The action plans illustrate the current action position regarding the management of the strategic risks. The responsible Heads of Service (risk owners) are responsible for keeping their action plans under review and amending them accordingly to reflect the changing risk environment.
 16. The Strategic Risk Profile (Appendix 1) shows the current risk profile of strategic risks within the organisation. Each identified risk has been scored onto the risk matrix. The shaded top right-hand area of the matrix represents the highest risks.
 17. Of the eight risks that currently sit above the Council's risk tolerance threshold, no overall movement has occurred in the scores (Para 7) however amendments have been made to the action plans to reflect changes in actions being taken to manage these risks. (Appendix 2)
 18. Reports to Cabinet require risk to be considered as part of the decision making process where appropriate.
 19. Risk is a consideration in projects managed by and on behalf of the Council.

Risk Assessment

20. 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.
21. Risks where managed correctly, are not necessarily undesirable. Riskier models of delivery can often be the most innovative and effective. The key to setting a positive risk appetite is the knowledge that the organisation is able to manage risks effectively

Other Options Considered

22. The Audit Committee is responsible for ensuring the effective development and operation of risk management. The Committee therefore needs to be satisfied that the action taken to manage risks is adequate. No other option could be advocated.

Consultation

23. The creation and review of the strategic risk register has been the subject of considerable consultation.

Implications Assessment

24. 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/strategic management arrangements

Contact: Ian Cumberworth Tel: 01233 330442

Email: ian.cumberworth@ashford.gov.uk

Management Action Plan Risk 1a Economic Growth Risk Owner Richard Alderton

Likelihood	6				
	5				
	4			1a	
	3				
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
1a	4/3 High/Severe	3/2 Low/Medium	Risk of 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
Vulnerability: The Council needs to work with and influence developers, businesses and other agencies to ensure that the right mix of housing, infrastructure and investment in the borough is delivered. As the market improves this risk will diminish.			

<u>Action/controls already in place</u>	<u>Adequacy of action/control to address risk</u>	<u>Required management action/control</u>	<u>Responsibility for action</u>	<u>Critical success factors (outcome)</u>	<u>Review Frequency</u>	
Promotion of economic development through dedicated ED team; planning – allocations and 'business friendly' service, site negotiations and approvals; media and marketing activities	Adequate further progress sensitive to levels of staff and other resource available	Continued focus on 'economic growth' approach across the Council and the Unit's own priority approach to business activity Strategic audit of current approach and re-assessment of economic development capacity has resulted in funding for increased ED staff capacity. , Resource levels need to be kept under review for major applications handling – current proposals to increase resources to cope with the large peak in major schemes over the next 2 years.	Richard Alderton	Identify additional actions to promote economic activity -promote those that exist already	3 months	
Range of partnership activity with the Locality Board, Locate in Kent, Homes and Communities Agency and others	Adequate	Maintain commitment to joint working. Regular meetings are held to review progress and stimulate action with the HCA. East Kent Regeneration Board continues to address collective input that can be applied to economic objectives. Regular working with LIK continues.	John Bunnett	Clarify objectives and help drive achievement of priorities	3 months	
Specific initiatives such as Portas funding; deferred developer contributions; broadband access to rural areas; GREENOV support for sustainable energy sector; etc	Adequate and injection of new ED staffing resources is now assisting future progress.	Key areas are now being targeted - (e.g. the town centre through the Town Team, the \Town Team Manager in post and TCAT); continue to apply market sensitive approach to deferred contributions (e.g. Charter House); maintain commitment to GREENOV project and continue successful promotion of rural broadband project. within resources available – identify opportunities that could be taken with increased resources	Andrew Osborne	Concentrate resources on priorities and apply any extra to new opportunities	3 months	

**Management Action Plan
Richard Alderton**

Risk 1b Mix and quality of housing

Risk Owner

Likelihood	6				
	5				
	4			1b	
	3				
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
1b	4/3 Significant/ Severe	3/3 Low/Severe	Risk of failure to get <u>the right mix and quality of housing</u> – fail to get the right units in the right places
Vulnerability: The Council needs to work with and influence developers, businesses and other agencies to ensure that the right mix of housing, infrastructure and investment in the borough is delivered.			

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
SPD adopted to drive space standards and quality environments	Adequate	Continued vigilance in application of the SPD and approach to high quality urban design. The market has generally responded positively and reports to Committee routinely address this issue.	Lois Jarrett	High quality living conditions and community building	Annual	[Milestones/deadlines]
'Quality Agreement' approach being trialled at Chilmington Green with the potential to be adopted elsewhere	Adequate	Details of Agreement and quality monitoring regime to be agreed and implemented. Developer team at Chilmington Green have signalled the intention to sign the Agreement	Richard Alderton	Quality place making; quality build and full attention to community development	Annual	
Implications of policy relaxations and deferred payments needs to be kept under review	Adequate	Schemes negotiated on viability grounds are reducing the supply of affordable housing – the impact needs to be kept under review (and balanced against the high levels of delivery over the last decade).	Richard Alderton	Adequate mix of housing delivered to address needs as far as possible	3 months	
Master plans to help shape density plans and help quality place-making, including new focus on garden city principles	Adequate	Programme of awareness raising for officers and members on garden city principles to help refine current approach; member reviews of completed development underway; specific approach being taken at Chilmington Green which will be taken forward in phase master-plans.	Richard Alderton	Understanding and support for clear set of development objectives to drive high quality living environments and 'place-making'.		

Management Action Plan

Risk 2

Volatile Income Streams –

Medium Term Financial Planning

Risk Owner Paul Naylor

Likelihood	6			2	
	5				
	4				
	3				
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
2	6/3 Very High/ Severe	5/2 High/Medium	Risk that financial planning assumptions about key income streams are affected by volatility through the changing legislative and economic environment
<p>Vulnerability: The Council's medium term planning assumptions about income streams are vulnerable to a number of factors including: recent legislative change introducing local council tax support schemes; local partial retention of business rates; new homes bonus, and also economic conditions impacting on local service income and returns on investments.</p>			

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
1. Robust medium term financial and service planning, informed by reasonable data and assumptions	Good	MTEP process is developing to ensure stronger awareness and direct input by Leader and cabinet in plan formulation. This process replaces the previous task group arrangement, but opportunities for general briefings and input for members are to follow as part of the budget cycle. Enhancing the scrutiny role to focus on testing key plan assumptions is to be developed in tandem.	BL and PN	Across all points, success would be measured through: <ul style="list-style-type: none"> Ideally good predictions leading to good plans and not too many surprises 	Across all points. PN and BL to review progress and effectiveness with MT, Leader, and portfolio holder on periodic basis.	Initial work to be completed for an autumn Budget Statement to Cabinet, autumn 2013
2. Regular income monitoring through budget management (council tax, business rates yield, new homes bonus and service income)	Good	New data processes to review monthly council tax and business rates yields are in place. Results are to inform routine budget monitoring and financial planning work through the leader and cabinet briefing process and reports to cabinet.	BL and PN	<ul style="list-style-type: none"> Effective scrutiny 	Formal reports on MTEP at least twice yearly and available for scrutiny input.	
3. Development of corporate data sets that enhance knowledge of business rates growth and risks, and in-year progress with the council tax base for new homes bonus purposes; plus service usage and demand trends to inform financial planning.	Developing	Collection of other data to improve corporate understanding of local economic impacts is being organised by our planning policy and finance services. Finance and the DCX will keep all data processes under review to ensure regular monitoring works smoothly. We will refine the corporate data set as appropriate and set up bi-monthly cross-service discussions to analyse and evaluate results. Outcomes from these processes will strengthen the basis for medium term planning assumption.	BL/strategic planning policy team	<ul style="list-style-type: none"> Well informed organisation External acknowledgement of good methods, for example from external auditors 		
4. Flexible financial and service management ability to adjust priorities or to take corrective actions	Good	Keep financial management controls and procedures under review to ensure decision-making protocols are appropriate if circumstances change	BL			

<p>5. Keeping up-to-date with legislative reforms and how this impacts on income levels and having actions in place (for example council tax support scheme)</p>	<p>Good foundation to build on with current arrangements</p>	<p>Ensure management team and members are well briefed on the importance of managing income opportunity and risk, as central to the operation and funding for the council – this will require some special briefings on financial and welfare reforms and how they impact corporately.</p>	<p>BL</p>			
<p>6. New income generating opportunities and risk</p>	<p>Good</p>	<p>As more emphasis is planned on generating new sources of income from less traditional methods (for example the creation of the council controlled companies) using legislation now available, there is an added focus for medium term financial planning. MTFP planning will need to ensure the thorough and prudent assessments of income growth opportunities are made. The timing of inclusion of future income opportunities within core financial planning is also to be carefully considered.</p> <p>Risk assessments will be made.</p>				

Management Action Plan Risk 3a Community demands/expectations

Risk Owner John Bunnett

Likelihood	6				
	5				
	4				
	3		3a		
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
3a	3/2 Low/ Medium	2/2 Very Low/Medium	Risk that <u>the Council fails to fully understand levels of demand / fails to manage expectations / fails to remain relevant to the local community</u>
<p>Vulnerability: 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.</p>			

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> Aligned funding to VCS with the corporate priorities of the council through SGG 	Adequate but under continued pressure	Consultation on new Discretionary Rate Relief policy complete, a new policy agreed by Cabinet in April – implementation and reapplication is on-going and funding has been increased for 2013/14	Policy Team	<ul style="list-style-type: none"> Lack of substantive objections to upcoming policy changes Urban governance structure – seeking to make existing structures work better New Business Rate Scheme agreed 	Annually	Many are ongoing, organic projects rather than milestone [Milestones/deadlines]
<ul style="list-style-type: none"> Rolled out liaison officers to local communities (see 4) 	Adequate	Liaisons offer on-going communications and facilitation mechanism	Paul Naylor			
<ul style="list-style-type: none"> community consultations are integral to the review of the Core Strategy – since the start of 2013 almost 30 community meetings have been held to help develop it The council actively engages with community groups such as the Parish Forum and Kent Associations of Local Councils (KALC) 	Good	Continue to liaise with residents and community representatives over any substantive changes to council operations	Richard Alderton			
	Good		Kirsty Hogarth / Michelle Byrne			
<ul style="list-style-type: none"> Understanding of local economic, demographic and governance issues to incorporate into more detailed policy-setting 	Adequate but improving	On-going – The Leader recently announced that various models will be explored, with the South Ashford Member Improvement Task group offering one possible framework	Nicholas Clayton			
<ul style="list-style-type: none"> Used existing and new partnerships to reach out and understand better the needs of local communities 	Adequate	On-going to maintain active engagement and membership of strategic partnership groups i.e. CCG, CSP etc.	Policy Team			
<ul style="list-style-type: none"> Consulting / Implementing a new Council Tax Benefit scheme to comply with government policy 	Good	Extensive consultation completed and implementing from April. Public briefings are ongoing	Paul Naylor			
<ul style="list-style-type: none"> Begun implementation of wider Welfare Reform agenda. 	Good		Paul Naylor			
<ul style="list-style-type: none"> Council added a specific action point regarding the development of Chilmington Green in early summer 	[See Action Point]					

Management Action Plan Risk 4 Opportunities for Localism Risk Owner John Bunnett

Likelihood	6				
	5				
	4				
	3			4	
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
4	3/3 Low/ Severe	2/3 Low/Severe	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.
Vulnerability: It becomes a risk that the Council is not seen to facilitate the localism agenda in a constructive way, whilst ensuring that appropriate emphasis is attributed to the agenda.			

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> ▣ Officers assigned to 4 areas(Parishes) with particular local issues to help break down barriers and facilitate change 	Adequate	[see 3a]	Policy Team	Set of principles to underpin all further discussions related to the localism agenda	6-monthly	3 months for agreed principles [Milestones/deadlines]
<ul style="list-style-type: none"> ▣ Piloted a number of localism initiatives, such as the parish handyman scheme 	Good	Progress on-going	Policy Team			
<ul style="list-style-type: none"> ▣ Increased the local influence and accountability of Ward Members through a local grant scheme 	Good	First year of grants was reviewed and reported to Cabinet in June. Second year now in place and funding increased for 2013/14	Policy Team			
<ul style="list-style-type: none"> ▣ Fully complied with the government's transparency agenda 	Good	On-going – officers will feed in to any government consultations which come out	Paul Naylor			
<ul style="list-style-type: none"> ▣ Taken a collaborative officer-member approach to implementing new community rights as set out in the Localism Act (Community Right to Challenge and Bid) 	Good	Implementation completed and the Rights are being explored by a number of community groups	Nicholas Clayton			
<ul style="list-style-type: none"> ▣ Maintain a focus on the rural aspects of localism, council now has a Portfolio Holder with responsibility for rural issues 	Good	New Homes Bonus and Community Infrastructure Levy allow the council to begin addressing community needs, including rural.	Management Team			
<ul style="list-style-type: none"> ▣ Taken steps to begin addressing the unique challenges to localism posed by the un-parished urban area 	Adequate and on-going	Further discussions on-going [see 3a]	Paul Naylor			
<ul style="list-style-type: none"> ▣ Neighbourhood Planning and other instruments brought in by government 	Good	Ongoing management and community liaison – Neighbourhood Planning has begun in Wye and Rolvenden	Richard Alderton			

Agenda Item No: 8
Report To: Audit Committee
Date: 26 September 2013
Report Title: Internal Audit Charter
Report Author: Brian Parsons – Head of Audit Partnership



Summary: The report asks that the Audit Committee consider and approve the Internal Audit Charter, which is a requirement of the new Public Sector Internal Audit Standards (PSIAS).

The report also updates the Committee on:

- The external quality assessment of internal audit (which is also a requirement of PSIAS)
- The proposal for the creation of 'one team – one employer'
- The possible extension, by a further four years, of the current collaboration agreement for the audit partnership
- The proposed arrangements for the recruitment of a new Head of Audit Partnership

Key Decision: No

Affected Wards: N/A

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

1. Consider and approve the Internal Audit Charter which is shown as an appendix to this report
2. Note that an external quality assessment of the conformance of Internal Audit to the Public Sector Internal Audit Standards will be carried out in January 2014
3. Note that it is proposed to adopt a one employer model for the internal audit service
4. Note that it is proposed to extend the internal audit shared service agreement to 31 March 2019
5. Note that a timetable has been put in place for the recruitment of a new Head of Audit Partnership

Policy Overview: N/A

Financial Implications: There are some limited costs associated with the quality assessment review against the Public Sector Internal Audit Standards.

Risk Assessment	YES
Equalities Impact Assessment	NO
Other Material Implications:	<p>Staffing – A decision to proceed with the one employer model will mean that the affected staff will need to be formally consulted prior to any change of employer.</p> <p>Legal – A change in the employment model will require a change to the collaboration agreement to restate the liabilities of the partners. The extension of the partnership will also require an amendment to the agreement.</p>
Background Papers:	The Public Sector Internal Audit Standards – issued by the Relevant Internal Audit Standard Setters (for local government this is CIPFA).
Contacts:	Brian.parsons@ashford.gov.uk – Tel: (01233 330442)

Report Title: Internal Audit Charter

Purpose of the Report

1. The report asks the Audit Committee to consider and approve the Internal Audit Charter, which is a requirement of the new Public Sector Internal Audit Standards (PSIAS).
2. The report also updates the Committee on:
 - The external quality assessment of internal audit (which is also a requirement of PSIAS)
 - The proposal for the creation of 'one team – one employer'
 - The possible extension, by a further four years, of the current collaboration agreement for the audit partnership
 - The proposed arrangements for the recruitment of a new Head of Audit Partnership

Issue to be Decided

3. The Audit Committee is asked to approve the Internal Audit Charter (shown as an appendix)
4. The Audit Committee is asked to note:
 - The external assessment of Internal Audit's conformance with the Public Sector Internal Audit Standards, which will take place in January 2014
 - The proposal to create a 'one employer' model for the Internal Audit shared service
 - The proposal to extend the collaboration agreement to 31 March 2019
 - The arrangements that are being put in place to recruit a Head of Audit Partnership.

Background

The Internal Audit Charter

5. The new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013. They represent a statutory standard for all internal audit services across the public sector and accord with the international standards for internal audit prescribed by the Chartered Institute of Internal Auditors (CIIA). A report on the key elements of the standards was provided to the committee earlier in the year.
6. The statutory standards require that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive (the Head of Audit Partnership)

must periodically review the internal audit charter and present it to senior management and the board (the Audit Committee) for approval.

7. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the Head of Audit Partnership's functional reporting relationship with the audit committee; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the audit committee.
8. The internal audit charter must also:
 - Define the terms 'board' and 'senior management' for the purposes of internal audit activity
 - Define the role of internal audit in any fraud-related work; and
 - Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities
9. An internal audit charter has been prepared for the Mid Kent Audit shared service. The contents of the charter are prescribed by the Standards; therefore any significant changes to the content at a local level may mean that the Mid Kent Audit service will not conform to the statutory standards.
10. The draft charter is shown as an appendix to this report. The Audit Committee it asked to approve the charter.

Public Sector Internal Audit Standards – Requirements of the Quality Assurance and Improvement Programme

11. The standards require that an independent external assessment of conformance is carried out at least once every five years. This has been referred to in previous reports to the audit committee. It is considered that every five years is an appropriate frequency, however this is a matter for periodic discussion between the Head of Audit and the Audit Committee.
12. There are two options for the assessment; it can either be done as a full EQA review or as a validated self assessment. The full EQA is approximately twice the cost of the validated self assessment.
13. A validated self assessment is considered to be the most appropriate option.
14. The external quality assessment will take place in January 2014. It will be carried out by a team from the Chartered Institute of Internal Auditors (CIIA) who are qualified to undertake the assessment and will provide an independent view, with no potential conflict of interest. The Institute is the owner and designer of the professional internal audit standards.
15. In advance of the CIIA assessment, an internal self assessment will be prepared, based on the detailed CIIA checklist and the CIPFA compliance checklist. The cost of the external assessment will be £7,000 with the cost spread across the four partner Councils (£1,750 each). The assessment will

include some interviews with key stakeholders, which will include some senior managers and members of the four audit committees. The cost will be met from existing audit budgets.

16. There are a number of benefits to the assessment process. Firstly, the self assessment helps to identify areas where the service can be improved, allowing an action plan to be prepared. Secondly, a successful external assessment will provide a form of accreditation for the service, which can be quoted in Internal Audit reports and will help to demonstrate the value of the service to existing and potentially new clients, as well as providing a quality assurance to the external auditors in terms of their ability to place reliance on the work of Internal Audit.
17. The first stage of the process has already taken place, which involved an assessment of conformance against the IIA and the CIPFA checklists. This identified significantly high levels of conformance already but inevitably, that there are some areas for attention. The introduction of a compliant Audit Charter will address a number of these areas. The remainder will be addressed over the coming months and an evidence of conformance file will be prepared prior to the external assessment in January 2014.
18. Further discussion will take place with the CIIA compliance team in December in order to clarify their requirements and arrange the interviews with stakeholders.
19. It is intended that full conformance with PSIAS will be demonstrated by 31 March 2014.

One Employer proposal

20. A proposal has been prepared which would lead to all of the staff who work for the internal audit shared service having one employer.
21. Since the commencement of the partnership in April 2010 all of the operational auditors have continued to be employed by their original employers, with their costs charged directly to the employer. In terms of management, one of the Audit Managers is employed by Tunbridge Wells, with a recharge to Ashford for his management time. The other Audit Manager is employed by Maidstone, with a recharge to Swale for management time. The Head of Audit Partnership is employed by Maidstone, with a recharge to the other three partners.
22. The operational auditors are primarily based at the site of their current employer, with the majority of their work being local to that site. The current arrangements allow up to 25% of their work to be carried out at other partnership sites, with a quid pro quo arrangements with the other partnership team. Where this has happened it has produced good results, for example, a recent audit of Section 106 arrangements at Tunbridge Wells was carried out by an Ashford auditor who was able to quote examples of good practice in the administration of Section 106's at Ashford. Audits of other shared services are carried out for the MKIP authorities, with the resulting Internal Audit report able to provide assurance to the two or three partner authorities.

23. While carrying out one-off audit projects at other sites has been successful, it does require a certain amount of administration as the auditor is treated as a one-off visitor to the site, requiring that issues such as IT access, parking arrangements, access cards, etc, have to be set up for each separate audit project. This would not be the case if the auditor was allocated to a site for, say, a three month or a six month period and carried out a range of audits while on that site; a longer time allocation is therefore more efficient.
24. The current employment model does not allow audit staff to be sent to work on another site for an extended period or to be rotated between the four client sites.
25. The current arrangements have the following disadvantages:
 - Lack of flexibility in the use of staff
 - Lack of flexibility to adjust the cost of the service
 - Variations in pay and conditions of employment between the four employers
 - No option for rotation of staff
 - Difficulties in maintaining auditor objectivity and independence (Objectivity and independence are a key requirement of PSIAS)
 - Limited cross partnership learning
 - Limitations on the resilience that can be provided
 - Difficulties in management control
26. All of these disadvantages would be addressed by a one team model – which will in turn lead to a better service for the four partner Councils.
27. The move to a single employer will not address variations in pay and conditions, as the existing staff will have their terms and conditions (including their salary) protected under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) regulations.
28. A number of other Internal Audit Partnerships exist in other parts of the country. The various Heads of Audit Partnership contacted over recent months have confirmed that they operate to a 'one employer' model, which was facilitated by a TUPE transfer.
29. The process that has been agreed by the representatives of the four partner Mid Kent Councils is that a report will initially be considered by the respective management teams, and subject to their endorsement of the proposal, the report will be provided to the respective decision making entity for each Council, for Ashford this will be the Cabinet, however the report will have previously been considered by the Joint Consultative Committee on 26 September 2013.
30. The process will include consultation for staff in accordance with each Councils formal procedure.
31. As stated earlier, the only effects on the audit service, that the Audit Committee should notice, are that a broader range of auditors will undertake audit work on each site and that the overall quality of the service will continue to increase. Members are therefore asked to note the proposal.

Extending the current partnership agreement

32. The current shared service arrangements for Internal Audit are the subject of a five year collaboration agreement. The agreement commenced on 1 April 2010 and will therefore expire on 31 March 2015.
33. In the context of the proposed changes to the employment model and the need to be able to attract a good quality candidate for the post of Head of Audit Partnership, it is proposed that the agreement be extended from 1 April 2014 to expire on 31 March 2019.

Recruitment of Head of Audit Partnership

34. The current Head of Partnership will be retiring on the 31 March 2014. The process of recruiting a Head of Audit Partnership will commence in early November 2013, with interviews taking place early in December. It is anticipated that the new Head of Audit Partnership will be appointed during December to formally commence employment on 1 April 2014. The arrangements should provide an opportunity for a hand-over to take place.
35. The committee is asked to note the arrangements for the recruitment of the Head of Audit Partnership

Risk Assessment

36. The risk of not agreeing the Internal Audit Charter is that the internal audit service will not meet the Public Sector Internal Audit Standards. This has negative implications for the standing of the service and the reliance that can be placed upon it.
37. The principal risk relating to the PSIAS assessment is that the assessors will declare non conformance. This risk can be mitigated by the necessary preparatory work being carried out prior to the assessment.
38. The principal risk for the 'one employer' proposal is that one or more of the four Council partners will not agree to the proposal, meaning that the current employment model continues. This will weaken the longer term position of the service and the partnership.
39. Any proposal to make a significant change to staff contracts contains a degree of risk. This risk will be mitigated by consulting formally with staff and taking proper account of issues that are raised.
40. The principal risk for the proposal to extend the partnership is that one or more of the four Council partners decides not to do so. This would put the current partnership service in jeopardy and would make it difficult to attract a sufficiently high calibre candidate for the post of Head of Audit Partnership.

Other Options Considered

41. A failure to be compliant with the Public Sector Internal Audit Standards would have a number of negative implications as implied elsewhere in the report, and could not be recommended.

Portfolio Holder's Views

42.

43.

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Internal Audit Charter:

1.0 Introduction

- 1.1 The Mid Kent Internal Audit Charter defines the purpose, authority and responsibility of Internal Audit. It establishes Internal Audit's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- 1.2 An internal audit charter is a requirement of the Public Sector Internal Audit Standards, which also defines the content of the charter.
- 1.3 In the context of the Standards and their application for Mid Kent Audit, the 'board' is the respective Audit Committee for each of the four partners, the 'chief audit executive' is the Head of Audit Partnership and senior management are the Heads of Service, the Directors and the Chief Executive.
- 1.4 Mid Kent Audit is a shared service partnership between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils.

2.0 Code of Ethics

- 2.1 Internal auditors will conform to the Code of Ethics as shown in the Standards. The Code of Ethics promotes an ethical culture in the profession of internal auditing. A code is particularly necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.
- 2.2 Auditors who have membership of another professional body must also comply with the relevant requirements of that organisation.
- 2.3 The key ethical principles are:
- Integrity
 - Objectivity
 - Confidentiality
 - Competency
- 2.4 Internal auditors will also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*. www.public-standards.gov.uk



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3.0 Purpose, Authority and Responsibility

- 3.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance PROCESSES. (Definition of Internal Audit – PSIAS 2013)
- 3.2 Authority for Internal Audit is provided by the Accounts and Audit Regulations 2011, which require that the Council 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' are the Public Sector Internal Audit Standards. The Regulations require that any officer or member must:
- a) Make available such documents and records as appear to be necessary for the purposes of the audit, and
 - b) Supply Internal Audit (on behalf of the Council) with such information and explanation as Internal Audit considers necessary for that purpose.
- 3.3 The scope for Internal Audit is the control environment, comprising risk management, control and governance. The scope of internal audit activity therefore includes all of the services, resources, systems, processes, assets and interests of the Council, including those operated by other agencies or contractors on the Council's behalf.
- 3.4 Internal Audit is and will remain, free from interference in determining the scope of internal auditing, performing work and communicating results.

4.0 Assurance provided to the organisation

- 4.1 Internal Audit will provide assurance through a systematic disciplined approach designed to evaluate and improve the effectiveness of risk management, control and governance processes. It is not possible to provide absolute assurance.

5.0 Independence and Objectivity

- 5.1 Internal Audit will be independent and internal auditors will be objective in performing their work.



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- 5.2 The Head of Audit Partnership will report to a level within the organisation that allows Internal Audit to fulfil its responsibilities. The level will be a senior officer who is a member of the chief officer management team.
- 5.3 The Head of Audit Partnership will confirm the organisational independence of Internal Audit to the Audit Committee in an annual report.
- 5.4 The Head of Audit Partnership will report functionally to the Audit Committee.
- 5.5 The Head of Audit Partnership will establish effective communication with, and have free and unfettered access to, the chief executive, the section 151 officer, the monitoring officer and the chair of the audit committee.
- 5.6 In order to demonstrate and ensure independence, the chief executive (or equivalent) will undertake or countersign or contribute feedback or review the performance appraisal of the Head of Audit Partnership. The chair of the audit committee will also be asked to comment on performance.
- 5.7 Internal Audit will be free from interference in determining the scope of internal auditing, performing work and communicating results.
- 5.8 The Head of Audit Partnership will communicate directly with the Audit Committee.

6.0 Individual objectivity

- 6.1 Auditors will exhibit the highest level of professional objectivity, and will make a balanced assessment for each audit and will not be unduly influenced by their own interests or those of others, and will not engage in any activity that may impair their judgement. As such, auditors will have no operational responsibility or authority over any of the activities audited.
- 6.2 Internal auditors will have an impartial, unbiased attitude and avoid any conflict of interest.
- 6.3 If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
- 6.4 Internal auditors will not assess specific operations for which they were previously responsible within the previous year.



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7.0 Consulting activities

- 7.1 Consulting services are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.
- 7.2 Approval will be sought from the Audit Committee for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.
- 7.3 If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure will be made to the engagement client prior to accepting the engagement.
- 7.4 The Head of Audit Partnership will decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.
- 7.5 Internal auditors will exercise due professional care during a consulting engagement by considering the:
- Needs and expectations of clients, including the nature, timing and communication of engagement results;
 - Relative complexity and extent of work needed to achieve the engagement's objectives; and
 - Cost of the consulting engagement in relation to potential benefits.

8.0 Proficiency and Due Professional Care

- 8.1 Engagements will be performed with proficiency and due professional care.
- 8.2 The Head of Audit Partnership will ensure that individual auditors' possess the knowledge, skills and other competencies needed to perform their individual responsibilities and that the collective audit partnership team possesses a sufficiently broad range of skills.
- 8.3 Internal auditors within the partnership team will be encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications.
- 8.4 Internal auditors are expected to enhance their knowledge, skills and other competencies through continuing professional development.



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- 8.5 The Head of Audit Partnership will hold a professional qualification (CMIIA, CCAB or equivalent and be suitably experienced.
- 8.6 Internal auditors will have sufficient knowledge to evaluate the risk of fraud.
- 8.7 Internal auditors will have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work.
- 8.8 Internal auditors will apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.
- 8.9 Internal auditors will exercise due professional care by considering the:
- Extent of work needed to achieve the engagement's objectives;
 - Relative complexity, materiality or significance of matters to which assurance procedures are applied;
 - Adequacy and effectiveness of governance, risk management and control procedures;
 - Probability of significant errors, fraud, or non-compliance: and
 - Cost of assurance in relation to potential benefits
- 8.10 Internal auditors will be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

9.0 Quality Assurance and Improvement Programme

- 9.1 Quality assurance procedures are set out in the Mid Kent Audit Partnership Procedure Manual which makes the respective responsibilities of the internal auditors and the audit manager clear for the audit cycle, from engagement to follow-up. These provide the basis for the day-to-day supervision, review and measurement of the internal audit activity.
- 9.2 Periodic internal self-assessments will be carried out and will be considered by the Audit Partnership Board and the respective Audit Committee.



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- 9.3 External assessment of conformance with the Standards will be carried out at least every five years by a qualified, independent assessor or assessment team from outside the organisation. The Head of Audit Partnership will discuss with the Audit Committee:
- The form of external assessments;
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest; and
 - The need for more frequent external assessments.
- 9.4 The Head of Audit Partnership will agree the scope of external assessments with the Audit Partnership Board and the respective audit committee
- 9.5 The results of the quality and improvement programme will be reported to the Audit Partnership Board, the respective management team and the audit committee.
- 9.6 Progress against any improvement plans, agreed following external assessment, will be reported in the annual report.
- 9.7 Subject to the external assessment confirming that the internal audit activity conforms to the International Standards for the Professional Practice of Internal Auditing, the statement of conformance will be quoted in internal audit reports and elsewhere.
- 9.8 Instances of non-conformance will be report to the audit committee. More significant deviations will be considered for inclusion in the governance statement.

10:0 Managing Internal Audit

- 10:1 The Head of Audit Partnership will manage internal audit effectively to ensure that it adds value.
- 10.2 Internal audit adds value to the Council (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

11:0 Planning

- 11.1 Mid Kent Audit work to a risk-based plan to determine the priorities of the internal audit activity for each of the four partners Councils, consistent with the respective organisations goals.



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- 11.2 The risk-based plan takes into account the requirement to produce an annual internal audit opinion on the assurance framework. It is linked to a high level statement (a strategy) stating how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to organisational objectives and priorities.
- 11.3 The Internal Audit Plan is based on a documented risk assessment process, which is utilised annually to create a one year audit plan for each Council.
- 11.4 The preparation of the plan includes consultations with the Heads of Service to help to identify their risk areas, and consultation with the s151 officer and other members of senior management and with the audit committee.
- 11.5 Consulting engagements, where accepted, are included in the plan.
- 11.6 Audit plans are provided to senior management, and to the audit committee for approval. The resources necessary to deliver the plan are shown.
- 11.7 The adequacy of internal audit resources is an ongoing consideration for the Head of Audit Partnership, with a statement on adequacy made in the annual report.
- 11.8 The Head of Audit Partnership will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plans.
- 11.9 The risk-based plan will include an internal audit resource assessment.
- 11.10 Where the Head of Audit Partnership believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences will be brought to the attention of the audit committee.
- 11.11 The Mid Kent Audit Procedures Manual contains policies and procedures to guide the internal audit activity.
- 11.12 Mid Kent Audit has adopted a protocol with the external auditors which agrees the sharing of information and the coordination of activities. The assurance provided by the external auditors and other assurance providers is a consideration when preparing the internal audit plan, subject to any work required in order to be able to place reliance upon the sources.

12.0 Reporting to Senior Management and the Board

- 12.1 The Head of Audit Partnership reports on a six monthly basis to the respective management team and audit committee on internal audits purpose, authority,



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responsibility and performance relative to its plan. The reports include significant risk exposures and control issues, including fraud risks, governance issues and other matters.

12.2 The internal audit service is provided in partnership with other Councils; however the annual report to the audit committees highlight that the respective Council has the responsibility for maintaining an effective internal audit activity in accordance with the Accounts and Audit Regulations.

12.3 Internal Audit evaluates and contributes to the improvement of governance, risk management and control processes using a systematic and disciplined approach.

12.4 Internal Audit assesses and makes appropriate recommendations for improving the governance process in the context of:

- Promoting appropriate ethics and values with the respective Councils
- Ensuring effective organisational performance management and accountability
- Communicating risk and control information to appropriate areas of the organisation; and
- Coordinating the activities of and communicating information among the audit committee, external and internal auditors and management.

12.5 Internal Audit will carry out internal audit work which seeks to evaluate the design, implementation and effectiveness of the Council's ethics-related objectives, programmes and activities.

12.6 Internal Audit will assess whether the information technology governance for the Council supports the Council's strategies and objectives.

13.0 Risk Management

13.1 Internal Audit will evaluate the effectiveness and contribute to the improvement of risk management processes.

13.2 Internal Audit will evaluate risk exposures relating the Councils governance, operations and information systems for the:

- Achievement of the Councils strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.



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- 13.3 Internal Audit will evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.
- 13.4 Managing the risk of fraud and corruption is the responsibility of management. Internal Audit procedures alone cannot guarantee that fraud and corruption will be detected.
- 13.5 Where evidence of fraud is detected as part of audit work the matter will be brought to the attention of the relevant Head of Service and the s151 officer. Where evidence of fraud is detected elsewhere within the organisation, the relevant Head of Service will bring the matter to the attention of the Head of Audit Partnership.
- 13.6 Where requested to do so by senior management, Internal Audit will, where appropriate, assist with the investigation.
- 13.7 During consulting engagements, internal auditors will address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.
- 13.8 Internal auditors will incorporate knowledge of risks gained from consulting engagements into their evaluation of the Council's risk management processes.
- 13.9 In the context of their work, internal auditors will not assume any management responsibility by actually managing risks.

14.0 Control

- 14.1 Internal Audit will evaluate the adequacy and effectiveness of controls in responding to risks within the Councils governance, operations and information systems regarding the:
- Achievement of the Councils strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations, policies, procedures and contracts.

- 14.2 Internal auditors will incorporate knowledge of controls gained from consulting engagements into the evaluation of the Councils control processes.

15.0 Engagement Planning

- 15.1 An engagement brief will be created for each audit project, which will represent a plan for each engagement's objectives, scope, timing and resource allocations.



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15.2 In planning the engagement the internal auditor will consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to the relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.
- Whether opportunities exist to consider the value for money of the activity being reviewed.

15.3 Consulting activities will be the subject of a similar written engagement brief.

16.0 Engagement Objectives

16.1 Objectives will be established for each engagement.

16.2 Internal auditors will conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives will reflect the results of this assessment.

16.3 Internal auditors will consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

16.4 Use will be made of the criteria used by management to determine whether objectives and goals have been accomplished. This will form part of the preparation for the audit and will be reflected in the engagement brief. If the criterion is inadequate, internal auditors will work with management to develop appropriate evaluation criteria.

16.5 Consulting engagement objectives will address governance, risk management and control processes to the extent agreed upon with the client and will be consistent with the Councils values, strategies and objectives.

16.5 The established scope will be sufficient to satisfy the objectives of the engagement and will include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

16.6 If significant consulting opportunities arise during an assurance engagement, they will only be pursued where a written agreement with the client is created. If internal



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auditors develop reservations about the scope during the engagement, these reservations will be discussed with the client to determine whether to continue with the engagement.

- 16.7 As part of engagement planning, internal auditors must determine the level of resources sufficient to achieve the engagement objectives based on the nature and complexity of the engagement, time constraints and available resources.
- 16.8 Internal auditors will develop and document work programmes that achieve the engagement objectives.
- 16.9 Work programmes will include the intended process for identifying, analysing, evaluating and documenting information during the engagement. The work programme will be approved prior to its implementation and any adjustments will be approved.

17.0 Performing the Engagement

- 17.1 Internal auditors will identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.
- 17.2 Internal auditors will identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.
- 17.3 Internal auditors will base conclusions and engagement results on appropriate analyses and evaluations.
- 17.4 Internal auditors will document relevant information to support the conclusions and engagement results. All such documents will be stored securely in electronic format.
- 17.5 The Head of Audit Partnership will control access to engagement records. The approval of senior management and/or legal counsel will be obtained prior to releasing such records to external parties, as appropriate.
- 17.6 The Head of Audit Partnership has developed retention requirements for engagement records (and all other audit records and documents). These include policies for the custody and retention of records, as well as their release to internal and external parties.
- 17.7 Engagements will be properly supervised by the Audit Manager to ensure objectives are achieved, quality is assured and staff are developed.



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18.0 Communicating Results

- 18.1 The results of all engagements will be communicated in writing, in the form of an audit report. The report will include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans.
- 18.2 The report will, where appropriate, contain the internal auditor's opinion and conclusions. The opinion and conclusion will be supported by sufficient, reliable, relevant and useful information.
- 18.3 The report will acknowledge satisfactory performance.
- 18.4 The results of the engagement will not be released to anyone other than the client unless the client has given instructions to do so.

19.0 Quality of Communications

- 19.1 Communications will be accurate, objective, clear, concise, constructive, complete and timely.
- 19.2 If a final communication contains a significant error or omission, the Head of Audit Partnership will communicate corrected information to all parties who received the original communication.
- 19.3 Subject to having had an external assessment which confirmed that internal audit conforms to the International Standards for the Professional Practice of Internal Auditing, the statement of conformance will be quoted in internal audit reports. Where a specific engagement did not conform, this will be disclosed in the report.
- 19.4 The Head of Audit Partnership will communicate the results of the audit (or consultancy) engagement with the appropriate Head of Service, the relevant Director and the Chief Executive (and others if instructed by the Chief Executive).
- 19.5 The Head of Audit Partnership will review and approve the final communication (report) before issuance and deciding to whom and how it should be disseminated.
- 19.6 If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing reports to parties outside the Council the Head of Audit Partnership will:
- Assess the potential risk to the Council
 - Consult with senior management and/or legal counsel as appropriate; and
 - Control dissemination by restricting the use of the results.



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- 19.7 All reports, where appropriate, will include an overall opinion on the adequacy of the control assurance at the time of the audit. The opinion will be supported by sufficient, reliable, relevant and useful information.
- 19.8 The Head of Audit Partnership will deliver an annual internal audit opinion and report that can be used by the Council to inform its governance statement. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- 19.9 The annual report will incorporate:
- The opinion
 - A summary of the work that supports the opinion
 - A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.
- 19.10 A process is in place to ensure that responses (action plans) are received from the client addressing the recommendation made in each audit report.
- 19.11 A follow-up process is in place to monitor and ensure that management actions have been effectively implemented or that management has accepted the risk of not taking action.
- 19.12 The results of consulting engagements are also monitored.
- 19.13 If the Head of Audit Partnership concludes that management has accepted a level of risk that may be unacceptable to the organisation, the HAP will discuss the matter with senior management. If the HAP determines that the matter has not been resolved, the HAP will communicate the matter to the audit committee.

Version 1 3 September 2013



Agenda Item No: 9
Report To: **AUDIT COMMITTEE**
Date: **26 SEPTEMBER 2013**



Report Title: **Mid Kent Audit Partnership –
Evolution to ‘One Team One Employer’
Covering Summary**

Report Author: Paul Naylor, Deputy Chief Executive (covering summary)

Summary:

For several years the council’s internal audit service has been provided in partnership. From 2005 to 2010 with Maidstone BC (with MBC providing operational management), and then from 2010 as part of the four-council mid Kent audit partnership (again with MBC providing operational management). A strong and resilient service has been provided throughout, with the partnership developing a good reputation across the partner councils and externally. It was not set up as a single team under one employer, unlike most if not all other audit partnerships of similar size and coverage. Each council has continued to act as employer for its staff who work within the partnership. This limits the real flexibility and opportunities that a single focus could achieve. This report (in two parts) discusses the pros and cons of converting the partnership to a ‘one team, one employer’ model, recommending this course be adopted subject to full consultation with and agreement by this council’s cabinet and the agreement of the other three councils.

The report is in two parts – both of which have been considered by the Joint Consultative Committee today (26 September). First, a covering report from the Deputy Chief Executive providing a client perspective from the council. Second, is a detailed report from the Head of the Audit Partnership.

It is important to emphasise that moving to a one team, one employer model would in no way alter the operational governance arrangement for the partnership. Each council is represented by a senior officer on this operational board, and it is this board that has oversight of the operational management on behalf of the four councils.

- Recommendations:**
- 1. The Audit Committee is asked to consider the two reports attached concerning the proposal to evolve the internal audit partnership to a 'one team, one employer' model and to agree the view it would wish be reported to the Cabinet when the matter is considered in October.**
 - 2. The committee is asked to note that the matter is the subject of full consultation with staff and their representatives across the four councils.**

Policy Overview: Internal Audit is a statutory requirement governed by the public sector internal audit standards. It is a requirement to have a strong and effective internal audit service. For several years this service has been provided in partnership and has worked well. The proposals are consistent with strengthening the service potentially making it even more resilient.

Financial Implications: Refer to the draft report to Cabinet attached.

Risk Assessment Issues of risk are covered in both reports. One of the greater risks is that in the individual councils in responding to council grant cuts develop strategies that inherently have greater risk. A strong internal audit service is therefore needed to contribute to risk assessments and risk mitigation. Evolving the current partnership model is seen as crucial to securing appropriate risk mitigations.

Equalities Impact Assessment To be completed prior to Cabinet. One of the particular existing issues that the current arrangement has is the disparity in terms of conditions for staff across the four councils.

Other Material Implications: Refer to the draft report to Cabinet attached.

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Internal Audit Partnership – its further evolution
Additional context/ covering report to JCC 26 September 2013

Report from Deputy Chief Executive

1. For some time Ashford BC's (ABC) internal audit service has been delivered in partnership with other councils.
2. In 2005 ABC moved from a directly provided service to a partnership with Maidstone BC (MBC), whose head of internal audit (Brian Parsons) then took on the management responsibility for both councils' internal audit services. Prior to this our service size was then small (at the minimum level of acceptability to provide assurance coverage) and its resilience was weak.
3. The two-way partnership and its management arrangement was a success and gave rise to improvements in audit coverage, working methods, resilience, and overall confidence (particularly with members with responsibility for governance, and our external auditors).
4. With the creation of the mid-Kent improvement partnership (MKIP) in 2010 the audit service was the first and only service to migrate to a four-way partnership (Ashford at that time being a founding partner to MKIP). The previous two council partnership was dissolved and the four councils' audit service brought under the Mid Kent Audit Partnership umbrella.
5. There were structural and redundancy implications at that time which affected two of the other councils, but not Ashford as we had made management changes previously. Brian Parsons was appointed to lead the four-council arrangement.
6. Despite differences in terms and conditions the four councils agreed to retain their individual employment arrangements for each of the four teams. However, across the partnership staff were to perform similar roles, to similar standards, be structured for management purposes in two teams (hence ABC and TWBC share an audit manager), and be encouraged to participate in audit work for the other council in the team.
7. Though far from ideal for true and effective partnership working this was a pragmatic arrangement that has worked, but not without its problems. As well as maintaining terms and conditions of employment of each individual council, the partnership manager and his audit staff have to observe the various operational and management arrangements that services generally must follow in each of the councils. There would be a large range including personnel and financial arrangements. This has not been ideal and has created inefficiency and confusion. Other examples of similar size audit partnerships researched suggest the move to 'one team, one employer' is a move made by several from the outset.
8. The first service agreement runs until April 2015.

9. When, for our organisational strategic reasons, in 2011 ABC withdrew from the MKIP partnership it nevertheless made an exception about the audit partnership and reaffirmed its commitment (ABC also continued its commitment to the shared contingency and business continuity planning service with Swale BC, and more recently has adopted its new recycling contract in partnership with two of the MKIP councils, plus KCC). The commitment to the audit partnership has been maintained with an audit service now well established and maintaining good levels of performance and confidence.

Proposal to evolve to a 'one team, one employer' model

10. Although the current working arrangement has served the council well and its audit coverage and assurance levels have improved, the partnership arrangement, operationally and managerially, is not ideal. It is good at what it does and reflects well on the skills and work of the auditors, but inefficiencies and disparities exist and opportunities for the councils and staff are not optimised. This is not helped by management's lack of proper flexibility to manage and deploy resources efficiently and effectively, as individual council's terms and conditions do not adequately reflect this need. Retaining individual terms and conditions is in itself a disadvantage to fostering a true partnership ethos. The perception is one of shared management rather than genuine partnership working, where a culture and commitment to cross-fertilisation of knowledge, experience and skills and genuine team-working should develop.
11. From the staff perspective there will be some anxiety about a change to 'one team, one employer', but as discussed in the attached report from Brian Parsons the employment arrangements should provide the necessary assurances through protection of existing employment terms in line with current conditions of service. On the positive side a genuine one team approach should provide for greater staff skill and career development. This should work well for staff. It should also work for the councils as a partnership with the coverage of the size and variety of the four councils may be expected to attract skilled auditors at times of recruitment.
12. Over the last year or so, and now heightened by Brian Parson's planned retirement on 31 March 2014 the officer governance board (four senior officers including myself) has considered options for the future. It is a shared view the current structural arrangement contributes to hampering truly effective working, though structure alone is not the only issue.
13. Over the next few years the financial challenge will intensify, where even greater value for money and effectiveness must be achieved. Further, as is now happening in ABC, councils must adopt innovative approaches to fulfilling corporate aims. All of this is a developing context for staff and services. Our audit service needs to adapt just as any other and in a way that it may play more of a part to evaluate potential and risks, and help shape future solutions.

14. The officer board shares this view and proposes that the current model evolves to a 'one team, one employer' model as the platform for building the flexibility needed. Although not an immediate aim the transition to 'one team, one employer' is also a platform on which to build an ability to expand the reach of audit work beyond the four councils.
15. Further, as no extra overall resources are proposed, given the financial circumstances, a new approach is likely to mean a different balance between traditional auditing of internal controls and auditor involvement in value for money and risk assessments, and contributions to evaluating and shaping solutions to corporate aims. One example of this already here at ABC is the involvement by an ABC auditor in the Farrow Court project; there will be other needs linked to corporate projects, here and at the other councils.

Other options

16. A range of other options have been considered, including feedback and ideas from individual(s) from the audit team. The other choices for ABC are:
 - To withdraw from discussions and allow the other councils to move forward, and for
 - ABC to recreate a self-managed internal audit service, or
 - ABC to look to join another audit partnership, or
 - Outsource
17. After careful consideration of these options, and the points raised by the team, it is felt that recreating a stand-alone service possibly combined with fraud and risk, would be possible, but would risk recreating the issues of the past. A small audit team, while knowledgeable about ABC would lack resilience, would not achieve the dedicated quality assurance and audit management focus required of professional audit standards and which the partnership brings, and would lack the ability to utilise and learn from skills and experiences from other councils in the partnership.
18. Looking to join another partnership may be possible though only the East Kent partnership may offer any real scope. This is set up as a 'one team, one employer' model (Dover DC is the host) and would be unfamiliar.
19. Outsourcing is theoretically possible, but again would be unfamiliar, most likely for a small service would create added cost and client management issues, and involve transfer of staff with less certainty of protection over the long term.

Summary and conclusion

20. This paper summarises the opportunity to further evolve the audit partnership arrangement. It is a successful partnership that is widely acknowledged. However, although successful at having raised the performance and reputation of internal audit, it has operational and management weaknesses that do not lend it to optimum effectiveness and efficiency.

21. Most audit partnerships of similar scale have started from a point of creating 'one team, one employer' and this is now seen as the desired model for the mid-Kent audit partnership. While this would allow for more flexibility to deploy auditor skills and capacity across the partnership, a transfer to 'one team, one employer' would be conditional on there not being any detrimental impact for the principal terms and conditions of existing staff; this is important. By principal is meant pay and leave etc, as full effectiveness of one team would mean adoption of similar management arrangements covering aspects of personnel management (for example similar appraisal and performance management approaches).
22. Although Ashford formally withdrew from the wider MKIP partnership it maintained its commitment to the audit partnership. Alternatives to the proposed model exist, although have risks. Moving back to an individual audit service is not recommended due to scale, resilience, management, and skills implications that a small team creates.
23. In terms of handling Cabinet will be considering the proposal to move to a 'One Employer model' in October and if agreed over the next few months staff will be subject to formal TUPE consultation which will establish the details of their transfer.

PN (DCX)

Report To: CABINET
Date: 10 October 2013
Report Title: Mid Kent Audit Partnership –
Evolution to ‘One Team One Employer’
Report Author: Brian Parsons – Head of Audit Partnership



Summary: The Mid Kent Internal Audit Partnership, between Ashford, Maidstone, Swale and Tunbridge Wells, commenced on the 1 April 2010.

Since then all of the operational auditors have continued to be employed by their original employers, with their costs charged accordingly. Although the partnership has performed well, the current employment arrangements have a number of disadvantages and limit the ability to use resources flexibly and most efficiently.

The Officer Partnership Board, meeting on 6 August 2013 considered an ‘options report’ prepared by the Head of Audit Partnership. The report proposed that the employment arrangements be consolidated so that all staff are employed by the same employer. The reasons for doing this are set out in the report.

The Board agreed in principle that the process should commence to create a ‘one team – one employer’ employment model for all staff working for the Mid Kent Internal Audit Partnership.

It was agreed that the Head of Audit Partnership should prepare a report to the respective Portfolio Holder/Cabinet but that the report should initially be considered by the respective Management Team.

Recommendations: That the Cabinet agree:

1. That a ‘one team – one employer’ employment model be adopted for the Mid Kent Internal Audit Partnership.
2. That the employing authority for Mid Kent Audit will be Maidstone
3. The timetable for the transfer of staff to the new employer.
4. That the transfer take place under TUPE
5. That an amendment be made to the collaboration agreement to reflect the new employment arrangements.
6. That the partnership agreement be extended from 1 April 2014 for 5 years (therefore expiring 31 March 2019)
7. That delegated authority be given to a senior officer to agree any final changes.

**Financial
Implications:**

The financial implications of all of the recommendations are considered to be broadly cost neutral, however further work is ongoing in order to provide a more accurate estimate of the cost of the 'one employer' option.

**Other Material
Implications:**

The proposed changes to the employment arrangements will require that the formal staff consultation process takes place.

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Report Title: Mid Kent Audit Partnership – Evolution to ‘One Team One Employer’

Purpose of the Report

1. To provide the Cabinet with a timetable and a narrative for the creation of a ‘one team – one employer’ model for the Internal Audit shared service.

Issue to be decided

2. The Portfolio Holder is asked to agree that the Mid Kent Audit Partnership move to a ‘one team – one employer’ model.

Background

Mid Kent Internal Audit

3. The formation of the four-way Internal Audit Partnership between Ashford, Maidstone, Swale and Tunbridge Wells was agreed by the partner Councils in 2009/10. The shared-service formally came into existence on 1 April 2010.
4. The new partnership created immediate savings compared with the previous arrangements, which were in the region of 15% of the overall total cost of the combined previous audit budgets of the four Councils. Since that time further staffing reductions have reduced the combined budget by another 5%.
5. The savings were achieved by reducing duplication, particularly at the management level, making better use of audit resources, sharing systems, audit programmes and documentation and applying a more professional targeted and better planned approach to audit work.
6. Mid Kent Audit (MKA) put in place consistent audit systems and processes across the four Councils, ensured compliance with the statutory standards, raised the profile of Internal Audit and improved the effectiveness of the service.
7. The service provided by Mid Kent Audit covers a broader governance remit than simply Internal Audit. MKA has also has the role of facilitating the risk management process across the four Councils and has been proactive in providing support, including training, to the respective Audit Committees as well as making a contribution to the improvement of governance generally within the partner authorities.
8. The Partnership has continued to develop the skills and competencies of the overall team, encouraging professional study and providing skills training in Computer Assisted Audit Techniques and Value for Money auditing.
9. Staff currently working for the partnership have significant levels of experience and a broad range of appropriate professional qualifications.

10. The partnership has been successful in meeting all of the business objectives that were originally set for it and has received very positive feedback from senior officers, Members and the external auditors across the four Councils.

Staffing

11. The basic staffing structure for MKA, of a Head of Service, two Audit Managers and nine operational auditors is a fairly typical, tried and tested structure for an Internal Audit service of its size, functions and responsibilities.
12. The role of the Audit Manager is central to the management of individual projects and subsequently to ensuring the output of the service. The Audit Manager (Maidstone and Swale) has a key involvement in 60 audit projects per annum, and the other Audit Manager (Ashford and Tunbridge Wells) has a key involvement in 48 projects. The Audit Managers play a crucial role in the quality assurance process, which is a compulsory attribute standard within the new Public Sector Internal Audit Standards.

Future Expectations

13. MKA will be seeking an external assessment of conformance with the new Public Sector Internal Audit Standards later in the year. A successful assessment will provide an 'accreditation' for the service, which will provide an independent assurance to existing clients in terms of the quality of service that they receive and would in the future allow Mid Kent Audit to compete for business externally to provide internal audit to other public sector organisations, which would produce an external income stream.
14. The changing landscape for local government has a number of implications for the Internal Audit service. Local authorities, including the four Partner Councils, have to consider new and innovative ways to achieve a balanced budget. This includes using entrepreneurial activities to produce additional income streams. These activities inevitably include a level of inherent risk which in previous times may have been considered to be unacceptable by a local authority. Even 'traditional' sources of income such as Council Tax and Business Rates have an additional level of risk due to the 'localisation' of both taxes. Added to this, the reduction in staffing levels, the deletion of layers of management, and the subsequent impact on traditional controls such as 'division of duties', mean that that local authorities have probably never been in greater need of a fully effective Internal Audit function.
15. The serious financial constraints facing local government is leading to councils developing more complex solutions to compensate. These strategies (companies, more partnership working, and capital investments some involving joint ventures) heighten risk, raise some governance issues, and demand a rebalancing of internal audit attention.
16. The recent changes to external audit have yet to be fully felt. The new auditors, Grant Thornton, are contracted to provide the external audit service at a price which is 40% less than the previous service provided by the Audit Commission. The margins mean a tighter, more structured audit with less flexibility for the audit staff, which will place considerable reliance on the client (the Council) to comprehensively prepare for the audit so that Grant Thornton do not need to carry out 'additional work', which would result in an increased

audit fee. The external auditors will also need to be able to place reliance on the work of Internal Audit in terms of the key financial systems, the integrity of which are crucial to the soundness of the final accounts. Internal Audit will need to continue to maintain good liaison with the external auditors to ensure that expectations can be anticipated and addressed. As stated earlier, these are early days, with the first set of final accounts yet to be reviewed by the new regime. The vulnerability of the four partner Councils to increased external audit fees will become clearer over the next year.

Current employment model

17. Since the commencement of the partnership all of the operational auditors have continued to be employed by their original employers, with their costs charged directly to the employer. In terms of management, one of the Audit Managers is employed by Tunbridge Wells, with a recharge to Ashford for his management time. The other Audit Manager is employed by Maidstone, with a recharge to Swale for management time. The Head of Audit Partnership is employed by Maidstone, with a recharge to the other three partners.
18. The operational auditors are primarily based at the site of their current employer, with the majority of their work being local to that site. The current arrangements allow up to 25% of their work to be carried out at other partnership sites, with a quid pro quo arrangements with the other partnership team. Where this has happened it has produced good results, for example, a recent audit of Section 106 arrangements at Tunbridge Wells was carried out by an Ashford auditor who was able to quote examples of good practice in the administration of Section 106's at Ashford. Audits of other shared services are carried out for the MKIP authorities, with the resulting Internal Audit report able to provide assurance to the two or three partner authorities.
19. While carrying out one-off audit projects at other sites has been successful, it does require a certain amount of administration as the auditor is treated as a one-off visitor to the site, requiring that issues such as IT access, parking arrangements, access cards, etc, have to be set up for each separate audit project. This would not be the case if the auditor was allocated to a site for, say, a six month period and carried out a range of audits while on that site; a longer allocation is therefore more efficient.
20. The current employment model does not allow audit staff to be sent to work on another site for an extended period or to be rotated for set periods between the four client sites.
21. A structure chart is shown at **Appendix A** which shows the current employment model.

The officer Partnership Board

22. The Board (an officer group with representatives from each of the four partners) has met on a number of occasions and has considered several reports from the Head of Audit Partnership. The Board is a requirement of the Collaboration Agreement between the four Councils. The most recent meeting of the Board on 6 August 2013 considered an 'options' report which primarily set out the advantages of moving to a 'one team – one employer' model for the Internal Audit Partnership.

23. The Board had previously asked that the report give consideration to the existing model, and include further research on the employment structures for other Internal Audit shared services, and a timetable and an action list for creating 'one employer'.
24. The Officer Board, meeting on 6 August, accepted the advantages that the revised model would bring. The Board asked that a report be prepared for the respective Portfolio Holder/Cabinet or other body (depending on the respective arrangements of each authority). The report would initially be considered by the respective management team before being provided to the Portfolio Holder/Cabinet or another body.

Disadvantages of the existing employment model

25. The disadvantages can be broadly categorised as follows:

Lack of Flexibility in the use of staff – the original partnership model envisaged the movement of auditors between the four sites to provide efficiencies in carrying out 'repeated' audits and to make best use of specialist skills. Where this has happened it has proven to be effective in practice but the current employment model limits the flexibility to use staff in this way. The current model reflects 'four teams' rather than 'one team'.

Lack of flexibility to adjust the cost of the service – significant financial savings were made at the commencement of the partnership, largely through structural changes, with some further savings made since; however, the current staffing arrangement is quite rigid and inflexible and any further reductions in costs from staffing reductions would be difficult to implement without unbalancing the overall structure.

Variations in pay and conditions – The staff within the shared service are paid under four different pay and conditions arrangements. From the commencement of the partnership this created a number of inequalities, which have led to resentment among some team members. The inequalities exist at both the auditor and the audit manager level.

No option for rotation – Because the auditors are employed to work principally on their employer's site, there is limited flexibility for them to work elsewhere, other than to carry out one-off projects. In order to ensure that objectivity is retained and the skills of the audit team members are developed, there would be a benefit in rotating the auditors and the Managers periodically. The current arrangements do not provide an option for rotation.

Maintaining objectivity and independence – this is a crucial aspect for an internal auditor and is a requirement of the Public Sector Internal Audit Standards. Audit staff who work only on one site can have a narrower outlook than someone who has worked in a number of different environments. In addition it may become increasingly difficult to maintain objectivity and 'fresh eyes' when carrying out a review of a subject that the auditor has audited previously, perhaps on a number of occasions. This can impact on 'independence of mind'.

Limited cross partnership learning – the auditors have considerable experience in a number of specialist audit subject areas but the current employment structure does not sufficiently facilitate the sharing of knowledge.

Resilience – Although the partnership has created much greater resilience than was previously in place, there is still a difficulty in being able to ensure service delivery for a client where, for example, a member of the fixed audit team has a significant period of absence through sickness.

Difficulties in Management Control – all of the issues set out above create difficulties in managing the arrangements and the staff.

26. All of these disadvantages would be addressed by a one team model – which will in turn lead to a better service for the four partner Councils. In terms of variations in pay and conditions, the variations will need to be dealt with over the longer term as the existing staff will have their terms and conditions (including their salary) protected under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) regulations.

What other audit partnerships do

27. The Board asked that I conduct some research on alternative employment models through contacting other Heads of Internal Audit shared services. I have since spoken to the Head of the Gloucestershire Audit and Assurance Partnership, the Head of the Derby City/South Derbyshire Audit Partnership and the Head of Audit Cotswolds. All three have confirmed that staff were transferred to one employer through the TUPE process at the commencement of the audit partnership. This was also the case for the East Kent Audit Partnership, which is a four-way shared service, with all staff employed by Dover District Council.
28. In all cases the TUPE process was used to ensure that employees existing terms and conditions were protected on transfer.
29. In retrospect all of the Heads of Audit Partnership consider that the TUPE decision was correct at the time and that it has worked to the benefit of the service.
30. The Heads of Audit Partnership also stressed the need for audit staff need to be independent in mind and practice and to be objective in their work and in their relationships with others.
31. The existing employment structure for Mid Kent Audit inhibits the flexibility necessary to use resources most efficiently and effectively.
32. The 'one team' model will allow (and encourage) good working relationships to be developed but will also mean that staff can be moved/rotated to maintain objectivity, allow fresh thinking, and maintain their personal and professional development.

33. Some of the other internal audit shared services have progressed their business to the point where they have attracted external clients while retaining their original local authority client base. This has led to them becoming limited companies who provide internal audit services. The creation of 'one team' means that this could be an option for Mid Kent Audit in the future, subject to the partnership building a sufficient client base and ensuring that it remains efficient and effective.

Hosting the service – (employing the overall partnership team)

34. The three Mid Kent Improvement Partnership (MKIP) authorities (Maidstone, Swale and Tunbridge Wells) are currently considering whether MKIP itself could eventually become an arms length company. However, even if a decision is made to proceed, it will be a considerable time before any company came into being. Therefore, there is little point in delaying a decision on 'one team – one employer' for Mid Kent Audit.
35. If the Mid Kent Audit Partnership is to proceed as 'one team', an employer for all of the staff will need to be agreed.
36. There is logic to having Maidstone as host; Maidstone is the biggest team. The grading/salary position at Maidstone means that more senior staff are paid slightly less than at the other three authorities. However, the grading/salary position would have no effect on the transferred staff as the staff would retain their existing terms and conditions, including salary.
37. The staff would be deployed at individual sites, but the staff location would be changed from time to time. The amount of audit work carried out at each site (the 'auditor days') would match the respective Council's budget for Internal Audit.

Number of staff affected

38. There are twelve staff in total currently working for Mid Kent Audit. If the new employer is Maidstone, the seven staff transferred will be:
- Audit Manager (Ashford and Tunbridge Wells) currently employed by Tunbridge Wells
 - Senior Auditor -Tunbridge Wells
 - Auditor - Tunbridge Wells
 - Senior Auditor - Ashford
 - Auditor - Ashford
 - Senior Auditor - Swale
 - Auditor - Swale

Timetable for staff consultation and implementation

39. Preliminary discussions have been held with the HR Shared Service Manager (Maidstone/Swale) during which a rough timetable for implementation was prepared. The timetable includes an allowance of 30 days for staff consultation. The overall timetable is shown at paragraph 50.

40. ETO (Economic Technical or Organisational change) has not been a consideration for discussion.
41. Transferred staff will be subject to salary protection under TUPE. Therefore budget savings from any reduced salaries would take some years before they take effect, and would only occur where the transferred employee leaves their new employer.

Revised basis for charging

42. The report to the Board referred to an alternative charging arrangement which would be facilitated by the 'one team' model. This would be based on each client committing to the purchase of a set number of audit days, which would reflect both the cost of the service and the number of audit projects delivered.
43. In order to create some stability it is suggested that for 2014/15, the days (and the cost of the service) would stay the same as now but beyond that there would be some flexibility in terms of the number of audit days purchased.
44. Partners/Clients will need to remain aware of the statutory nature of the Internal Audit service and that any radical reductions in coverage or sudden changes could undermine the service, the partnership and the ability of the respective Council to meet the statutory requirement.
45. One of the benefits of basing charges on audit days is that it provides a greater opportunity to set an annual target for the sale of audit days to new clients, allowing a 'toe to be dipped' into the market for selling auditor days.

Consolidating budgets

46. It would be relatively straightforward to consolidate the four existing audit budgets. In effect the host authority (the employer) would create a budget which is the equivalent of the four budgets combined, which would then be recharged back to the four partners, on a quarterly basis. Subsequent changes to the budget (and therefore the charges to be made to each Council) would be the subject of agreement between the four parties. It would not be anticipated that simply consolidating budgets would have any material effect on service costs overall.

The financial effect of a TUPE transfer

47. A member of Maidstone's Business Improvement Team has been commissioned to carry out some work on costings, to establish the costs for a changed employment model. It is anticipated that any changes would be broadly cost neutral.

The current partnership (collaboration) agreement

48. The current partnership agreement sets out the employment structure that has been in place since 1 April 2010 and the liabilities of each of the partners in the context of their direct employment of partnership staff. It will be necessary for the agreement to be amended by means of a variation order in order to reflect the revised employment model and the revised liabilities of the partners. A formal variation order will be prepared, with the necessary input from Legal Services, for agreement between the parties.

The partnership term

49. The current partnership agreement expires in March 2015. It is therefore recommended that, as part of the consideration of the employment model, consideration is also given to extending the partnership for a period of five years from 1 April 2014. This will give stability to the service and will greatly assist the recruitment process for a new Head of Audit Partnership. The recruitment process will commence in November, with the new Head of Partnership required to be in place from 1 April 2014.

The Timetable for implementing 'one team'

50. The proposed timetable for the creation of one team is*:
- 6 August 2013 - Audit Board confirm that action be taken to implement 'one team – one employer'
 - 16 August – A second, revised draft of the proposal to be circulated to the Board members for agreement and presentation to next meeting of management team
 - 20 August – Staff engagement commences via a meeting of the audit partnership team
 - 19 August to 17 September – The four respective management teams agree the proposed action
 - September – the respective HR teams to discuss and agree the approach re staff consultation etc
 - September – Report on the proposal to respective Portfolio Holder
 - October – Formal decision by Portfolio holder
 - November – End of January 14 – Staff consultation and TUPE transfer
 - November – End of February 14 – New contracts etc
 - November – End of March 14 – Deliver new finance arrangements
 - End of January 2014– amend collaboration agreement (engage Legal Services)
 - Feb- March 2014 – Embed new employment structure
 - 1 April 2014 – New Head of Audit Partnership start date

*This is a generic timetable that will need to be adjusted to suit the processes to be used by each of the four Councils.

51. The decision making process for gaining approval for the revised employment arrangements is different at each of the four partner Council's. It is possible that variations to the proposals contained within this report will be put forward at the various meetings. If that is the case it will be necessary for a senior officer to be able to agree those changes in consultation with their counterparts at the other Councils, otherwise the changes would need to be considered by means of going through the decision making process again. It is therefore recommended that a senior officer be given delegated authority to agree any changes that do not materially affect the principal proposal.

Consultation

52. The consideration of the issues contained within this report provides a process of consultation with the four partners. This has been done initially through the Officer Board, which is composed of representative of the four partner Councils, subsequently by the respective senior officer management team and finally by the respective Portfolio Holder.
53. Formal consultation with all staff affected by the proposal will commence following a positive decision by the Portfolio Holder. The decision can only be made on the basis that it will be subject to staff consultation. The consultation will be carried out in accordance with the respective employer's formal procedures.

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Mid-Kent Audit



Audit Committee - Future Meetings

Date 3/12/2013			
Publish by 25/11/12			
Reports to Management Team by 21st November		Council 12/12/13	
1	Annual Governance Statement – Progress on Remediating Exceptions	PN	
2	Annual Audit Letter 2012/13	Gr Th (cover by PN)	
3	Internal Audit Interim Report	IC	
4	Internal Audit Partnership – Progress Report	BP	
5	Whistleblowing Policy	BP	
6	Anti-Fraud and Corruption Policy	BP	
7	Money Laundering Policy	BP	
8	Report Tracker & Future Meetings	DS	

Date 04/03/2014			
Publish by 24/02/14			
Reports to Management Team by 20th February		Council 24/04/13	
1	Grant Thornton's Progress Report Ahead of 2013/2014 Audit	Gr Th	
2	Certification of Grant Claims – Annual Report	Gr Th	
3	Presentation of Financial Statements	MN	
4	Strategic Risk Management – 6 Monthly Update	BP	
5	Annual Governance Statement – Progress on Remediating Exceptions	PN	
6	Internal Audit Operational Plan 2014/15	BP	
7	Report Tracker for Future Meetings	DS	

Date 26/06/2014			
Publish by 18/06/14			
Reports to Management Team by 12th June		Council 17/07/14	
1	Internal Audit Annual Report 2013/14	BP/IC	
2	Annual Report of the Audit Committee 2013/14	IC	
3	Approval of Annual Governance Statement 2013/14	PN	
4	Report Tracker for Future Meetings	DS	

Date 25/09/2014			
Publish by 17/09/14			
Reports to Management Team by 11th September		Council 16/10/14	
1	Fraud Annual Report 2013/14	PN/ Hannah Davies	
2	Annual Governance Statement – Progress on Remedying Exceptions	PN/NC	
3	Statement of Accounts 2013/14 and the External Auditor's Audit Findings Report	Gr Th (cover by PN/BL)	
4	Strategic Risk Management – 6 Monthly Update	IC	
5	Report Tracker & Future Meetings	DS	

18/9/2013