



## Audit Committee

Notice of a Meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane,  
Ashford, Kent TN23 1PL on Tuesday, 18<sup>th</sup> March 2014 at 7.00 pm.

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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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|---|----------------------|
| 1. <b>Apologies/Substitutes</b> – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)                             |                      |
| 2. <b>Declarations of Interest:-</b> 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. <b>Minutes</b> – To approve the Minutes of the Meeting of this Committee held on the 3 <sup>rd</sup> December 2013                           |                      |

### Part I – For Decision

4. The Local Code of Corporate Governance
5. Certification of Grant Claims – Annual Report
6. Presentation of Financial Statements
7. Financial Statements for year ended 31<sup>st</sup> March 2014 – Assurance Statement (to follow)
8. Strategic Risk Management – 6 Monthly Update
9. Internal Audit Operational Plan 2014/15



10. Internal Audit – External Quality Assessment Against Public Sector Internal Audit Standards
11. Internal Audit – External Audit Protocol

## **Part II – Monitoring/Information Items**

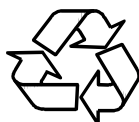
12. Annual Governance Statement – Progress on Remedying Exceptions
13. External Auditor's /Audit Plan for Ashford Borough Council and Audit Committee Update Report
14. Report Tracker and Future Meetings

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10<sup>th</sup> March 2014

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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/240134/Openness\\_and\\_transparency\\_on\\_personal\\_interests.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/240134/Openness_and_transparency_on_personal_interests.pdf) plus the link sent out to Members at part of the Weekly Update email on the 3<sup>rd</sup> May 2013.
- (b) The Kent Code of Conduct was adopted by the Full Council on 19 July 2012, with revisions adopted on 17.10.13, 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 **3<sup>rd</sup> December 2013**.

### **Present:**

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

### **Apologies:**

Cllrs. Shorter, Yeo.

### **Also Present:**

Deputy Chief Executive, Head of Communications & Technology, Head of Audit Partnership, Audit Partnership Manager, Finance Manager, Senior Auditor, Senior Member Services & Scrutiny Support Officer.

Andy Mack, Lisa Robertson - Grant Thornton.

## **217 Minutes**

### **Resolved:**

**That the Minutes of the Meeting of this Committee held on the 26<sup>th</sup> September 2013 be approved and confirmed as a correct record.**

## **218 The Council's IT Continuity Arrangements**

The Head of Communications & Technology gave a presentation outlining the Council's arrangements for IT continuity and systems backup/restore. This was in response to questions raised at the last Audit Committee meeting in September.

The presentation focussed on the changed IT landscape in recent years with particular reference to virtualisation and the impact that this had had on backup and recovery methods in terms of business continuity and disaster recovery, as well as general storage of information. Modern technology now made it possible to set up two or more virtual servers which could keep running in the event of a failure at one of the main bases. As well as reliability improvements this had also significantly reduced the total cost in terms of ownership and efficiency. He explained in some detail how those changes had manifested themselves locally and the systems that Ashford Borough Council now had in place. In terms of particular examples, the Head of Communications & Technology said that with regard to backup of data, the old system of backing up to tapes was now totally redundant. By 'snapshotting' it was now possible to make copies of entire systems, write that away to disc and restore it almost instantaneously. Systems were snapshotted throughout the day

(some at two hourly intervals). It was also possible to make multiple copies of this data for disaster recovery purposes. All servers were backed up overnight and storage was replicated to the Ashford Gateway. He also outlined in further detail the various layers of backup and protection the Council had available to it. He concluded his presentation by emphasising that IT systems were now much more responsive in terms of being able to recover and respond to issues in a timely fashion than they were even five or six years ago.

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

- All server rooms were protected by UPS (Uninterruptible Power Supplies) in the event of power outages. This was supplemented by a backup generator and these allowed the time for proper controlled shutdowns.
- The Council had three separate layers of virus protection. The first two were via the Kent Public Service Network (which linked all public sector organisations in Kent) and the joint academic network with the Universities of Kent and Greenwich. These had multi-level virus and malware protection which scanned all emails and immediately dropped over 90% of all emails as virus or spam. In addition to that the Council had its own firewalls and protection on all servers and individual PCs had their own virus software. All attachments were scanned for viruses including those that may be embedded.
- The Council's IT backup site (second site) for disaster recovery purposes was at the Ashford Gateway. This was on a different power supply and was considered to be far enough away as to not be a risk. Systems could also be replicated to the Kent and Medway regional data centre in Chatham if required. If the Council lost access to the Civic Centre, suitable alternative facilities could be found and the majority of staff could now be set up to work from home.
- There were large scale test recovery exercises undertaken and the relevant service areas were asked to sign these off. These were not audited by Internal Audit but they were signed off by IT.

The Chairman thanked the Head of Communications & Technology for his presentation and said that the Committee had found it useful and re-assuring.

**Resolved:**

**That the presentation be received and noted.**

## **219 Annual (External) Audit Letter 2012/13**

Mr Mack introduced the report which presented the first full Annual Audit Letter from Grant Thornton UK, the Council's External Auditors. The letter covered the Auditor's findings and opinions arising from the 2012/13 audit. Detailed findings were not repeated as they had been previously reported to the Committee, but the letter

restated the unqualified opinion on last year's accounts and the audit conclusion on efficiency and effectiveness. It also highlighted the Auditor's positive conclusions about the Council under the financial resilience test. This test applied to all Council's and 2012/13 was the first year such an examination was carried out. The Auditor's overall opinion on the Council's arrangements for securing value for money was again positive. Other than the previously reported matter concerning an incomplete set of Members' third party declarations for the purposes of auditing the final accounts, there were no further matters highlighted for attention. They intended to report further on the certification of grant claims and returns at the next meeting of the Committee. Mr Mack explained the transition from the Audit Commission to Grant Thornton had been smooth and assisted by continuity of staff. He also wished to thank the Council's Officers for assisting in this process.

In response to a question Mr Mack advised that the Housing Benefit Subsidy Claims had been signed off the previous week. There was no cause for alarm and the detailed findings would be included in the report to the next meeting of the Committee.

It was not in the scope of the value for money work that Grant Thornton undertook to identify potential cost savings for the Council, but this was something they could do if requested. The Deputy Chief Executive confirmed that value for money was becoming more of a feature of Internal Audit work.

**Resolved:**

**That the Annual Audit Letter for 2012/13 be received and noted.**

## **220 Internal Audit Interim Report**

The report provided details of the work of the Internal Audit team between April and September 2013. The Audit Committee was asked to agree that the work provided evidence of an adequate and effective internal audit. The Head of Audit Partnership advised that the team was on course to complete their programme of work as agreed for the year.

With regard to the points made on value for money as part of the last item, the Head of Audit Partnership advised that they had invested in value for money training for staff members and they would be looking to include value for money reviews in the identified projects for next year. The Deputy Chief Executive considered that the Audit Committee should be consulted on where to pursue value for money reviews as part of the discussion on the Annual Audit Plan at the March meeting.

In response to a question about the Limited assurance level on the VAT management audit, the Audit Partnership Manager advised that they had now received a full response from Management Team on this and action had been taken. It was not about bad accounting, more the technical interpretations around the correct application of VAT.

It was explained that Greenov claim verification was carried out by Internal Audit because this had been a requirement of the original funding agreement.

A Member said he wished to refer to an exempt item that had been previously reported to the Council.

## **221 Exclusion of the Public**

**Resolved:**

**That pursuant to Section 100A(4) of the Local Government Act 1972, as amended, the public be excluded from the meeting during consideration of the remainder of this item, namely 'Internal Audit Interim Report' as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present there would be disclosure of exempt information hereinafter specified by reference to paragraphs 3 and 5 of Schedule 12A of the Act.**

## **222 Internal Audit Interim Report**

A Member referred to an exempt report previously received by the Council and was advised that it was not possible to elaborate on this matter at this stage due to legal reasons, but updates would be produced when it was possible to do so.

## **223 Resumption of Meeting in Public**

**Resolved:**

**That the Meeting be resumed in public**

## **224 Internal Audit Interim Report**

**Resolved:**

**That the report be received and noted and the Committee is satisfied that the audit process is working effectively and that management is taking the necessary action to implement agreed audit recommendations.**

## **225 Internal Audit Partnership Update**

The report provided an update to the report submitted to the 26<sup>th</sup> September meeting of this Committee and outlined the action that had been taken or was planned for the coming months to develop and sustain the Internal Audit Partnership.

The Head of Audit Partnership explained that full formal consultation had commenced with staff and their representatives across the four Councils on the evolution to 'One Team – One Employer'. The recruitment process for a new Head of Audit Partnership had also commenced with a deadline for applications of Friday 6<sup>th</sup> December 2013. Interviews would take place on the 19<sup>th</sup> December with an

appointment decision scheduled for 20<sup>th</sup> December. Ashford's Deputy Chief Executive would be on the interview panel.

In response to a question the Head of Audit Partnership confirmed that the Chairmen of the four Audit Committees in the Partnership would be consulted on the new Collaboration Agreement. The intention was for that to be agreed by the end of February so it could come into effect at the same time as the new Head of Audit Partnership started work on 1<sup>st</sup> April 2014.

**Resolved:**

**That the Committee note the actions that have been taken (or will be taken) to develop and sustain the Internal Audit Partnership.**

## **226 Annual Governance Statement – Progress on Remediating Exceptions**

The report explained progress against the areas for continued work which were included in the Annual Governance Statement agreed by the Committee in June. It highlighted the following matters: - the Leader's wish that there be a refocusing of Council priorities and further cultural development to consolidate the direction that was currently set out in the business plan and Cabinet's previous position statement; the Leader's proposal for a further review of some aspects of the constitution to reinforce the principle of inclusivity and to clarify delegations; production of an Annual Report; updating the 2007 Code of Corporate Governance; and a procurement strategy review.

**Resolved:**

**That the Committee note the progress to date on resolving the governance exceptions identified in the 2012/2013 Annual Governance Statement.**

## **227 External Auditor's Audit Committee Update**

Mrs Robertson was introduced as Grant Thornton's new Audit Manager. She introduced the report which provided an update of Grant Thornton's ongoing external audit work for the current audit year, as well as providing a commentary on emerging national issues and posing some questions on those for the Committee.

In response to a question about the Council's whistleblowing policy the Head of Audit Partnership said that this had been reviewed and he still hoped to report on this to the next meeting of the Committee in March. Whilst the existing policy was effective, there was always room for review and improvement. He referred to a particular instance of attempted fraud against a number of Local Councils, including Ashford, which had happened recently, but had been picked up by vigilant Officers before any harm could be done. This was by way of a seemingly legitimate invoice request and Officers had done extremely well to spot the danger. The Deputy Chief Executive said that in his view, as an unintended consequence of the transparency agenda, there was an increased risk of fraud of this type and was something to keep a close



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eye on. The Chairman said he would like to pass on the Committee's thanks to the relevant Officers.

**Resolved:**

**That the report be received and noted and the emerging issues and questions posed should be considered by the Committee over the course of its meetings in 2014.**

## **228 Report Tracker and Future Meetings**

It was confirmed that the date of the next meeting was Tuesday 18<sup>th</sup> March 2014.

**Resolved:**

**That the report be received and noted.**

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**Agenda Item No:** 4  
**Report To:** **Audit Committee**



**Date:** **18/03/2014**

**Report Title:** **Local Code of Corporate Governance (2014)**

**Portfolio Holder:** Portfolio Holder for Resource Management and Control, Neil Shorter

**Report Author:** Policy and Performance Officer, Nicholas Clayton

**Summary:**

The Delivering Good Governance in Local Government framework produced by CIPFA and SOLACE and published in 2007 set the standard for local authority governance and this Council produced its own Local Code of Corporate Governance in 2008.

The publication in late 2012 of an updated Delivering Good Governance framework, mirrored by an acknowledgment within the 2012/13 Annual Governance Statement, makes it timely to refresh our own local code.

This report summarises the changes in governance since the Council last agreed a Local Code, and the impact of this on the Council's local code. The report also seeks agreement to an updated Local Code of Corporate Governance for 2014 in accordance with the CIPFA/SOLACE Delivering Good Governance document published in late 2012.

**Key Decision:** NO

**Affected Wards:** ALL

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

- 1. Note the changes in governance, both externally and internally, since the 2008 Local Code was agreed**
- 2. To agree a new Local Code of Corporate Governance for 2014**

**Policy Overview:** The Delivering Good Governance in Local Government framework produced by CIPFA and SOLACE and published in 2007 set the standard for local authority governance and this Council produced its own Local Code of Corporate Governance in 2008. The publication in late 2012 of an updated Delivering Good Governance framework makes it timely to refresh our own local code.

**Financial** N/A

**Implications:**

**Risk Assessment** N/A although good governance includes the provision for consideration of risk management issues

**Equalities Impact Assessment** N/A although good governance includes the provision for consideration of equalities issues

**Background Papers:** Ashford Borough Council Local Code of Corporate Governance (2008)

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

## **Report Title: Local Code of Corporate Governance (2014)**

### **Purpose of the Report**

1. This report summarises the changes in the governance landscape since the Council last agreed a Local Code, and the impact of this on the Council's Local Code. The report also seeks agreement to an updated Local Code of Corporate Governance for 2014 in accordance with the CIPFA/SOLACE Delivering Good Governance document published in late 2012.

### **Issue to be Decided**

2. For Audit Committee to agree the new Local Code of Corporate Governance included in Appendix 1.

### **Background**

3. In 2007 CIPFA/SOLACE published the Delivering Good Governance in Local Government document which set out a framework for good corporate governance in local government. This framework urged local authorities to review and report on the effectiveness of their governance arrangements, underpinned by a concept of an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. Accordingly, the Council reflected the framework in a local code which was agreed in 2008 and was based around CIPFA's six principles of local authority governance –
  - i. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - ii. Members and Officers working together to achieve a common purpose with clearly defined functions and roles
  - iii. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - iv. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - v. Developing the capacity and capability of Members and Officers to be effective
  - vi. Engaging with local people and other stakeholders to ensure robust public accountability
4. In late 2012 CIPFA/COLACE released further guidance (and an addendum) offering best practice for developing and maintaining a locally adopted code of governance. This report seeks to fulfil this requirement by considering those developments which have impacted upon local authority governance since

2008, the impact of this on the Council's local code, and to agree a new local code for 2014 (Appendix 1).

## **Governance Developments since 2008**

### ***Transparency***

5. The government is committed to increasing transparency across Whitehall and local authorities in order to make data more readily accessible to the citizen and to hold service providers to account. The Department for Communities and Local Government (DCLG) published *The Code of Recommended Practice for Local Authorities on Data Transparency* in September 2011. The Code is concerned with enshrining the principles of transparency by asking councils to follow three key principles when publishing data they hold:
  - responding to public demand
  - releasing data in open formats available for re-use
  - releasing data in a timely way.
6. A key part of making spending and data transparent is to get good quality information in the public domain in a standardised format while maintaining the security of that data.

### ***Localism Act 2011***

7. The Localism Act includes a number of provisions intended to give local government new freedoms and flexibility. Those of greatest relevance to governance are :
  - The 'general power of competence' gives local authorities the legal capacity to do anything an individual can that is not specifically prohibited. This new general power will give local authorities greater freedom to work in partnership and develop more innovative ways of providing services.
  - The government has abolished the standards board regime but has introduced a new duty to promote and maintain high standards of conduct. Local authorities are required to draw up their own codes of conduct.
  - The government is encouraging greater use of the directly elected mayor model of governance.
  - The Act permits local authorities and their citizens to change their form of governance and to move away from an executive form of governance to a committee structure if they wish.

## ***The Role of the Chief Financial Officer and Head of Internal Audit***

8. In 2010, CIPFA issued both the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government and Head of Internal Audit*. The statements support CIPFA's work to strengthen governance, risk and financial management across the public services. Each sets out five principles that define the core activities and behaviours that belong to the role of the chief financial officer and the governance requirements needed to support them. The governance requirements should be reflected in an authority's local code of governance. These statements can be found at [www.cipfa.org/Policy-and-Guidance/Reports/The-Role-of-the-Chief-Financial-Officer-in-Local-Government](http://www.cipfa.org/Policy-and-Guidance/Reports/The-Role-of-the-Chief-Financial-Officer-in-Local-Government) and [www.cipfa.org/Policy-and-Guidance/Reports/-/media/Files/Publications/Reports/Role\\_of\\_the\\_HIA\\_NOVEMBERv5.pdf](http://www.cipfa.org/Policy-and-Guidance/Reports/-/media/Files/Publications/Reports/Role_of_the_HIA_NOVEMBERv5.pdf).

### ***Changes to local authority governance structures***

9. Commissioning and partnerships with other local authorities and sectors are increasingly used as vehicles for delivering public services by local government. Local authorities often work with and through a range of organisations to deliver services. Partnerships and the cross-cutting issues with which they often deal create some special challenges for clear accountability and good governance. Each partner organisation may have its own governance and accountability structure, its own code of conduct and risk management arrangements. Demonstrating clear lines of accountability for stakeholders and customers may be difficult and needs to be carefully thought through by those involved, but is essential for good governance. The introduction of the government's 'big society' concept, which is encouraging public sector organisations and individuals to demonstrate new and innovative ways of delivering public services, brings further challenges in this area.
10. Shared services between organisations, including shared management teams and chief executives, can bring about substantial benefits, including cost savings for the parties involved. At the same time, there are distinct issues surrounding what happens if something goes wrong.

### ***Service Delivery through trading (and other) companies***

11. One of the key developments in local authority governance has been the increased use of arms-length or trading companies within the range of service delivery models. Ashford Borough Council has been at the front of this, agreeing to the formation of two new trading companies during 2013; one to market the skills within the Building Control Team to sell building consultancy services beyond the building control services currently provided and a property company that seeks to purchase and develop both residential and commercial properties.
12. The governance arrangement for such companies is not vastly different from those of the Council. It remains important, however, to ensure the application of the same effective governance frameworks, reviews and maintenance seen in the Council's own governance frameworks to these new entities.

## **Impact on the Council's Governance**

13. Whilst much of the evidence included in the 2008 Local Code was met, remains relevant and is reflected in the updated 2014 Code, a number of key changes have shifted the focus of local governance from that which was laid down in the 2008 Local Code.
14. Accordingly, the following section summarises the impact of the wider governance developments noted above on the Council's 2008 Local Code, as enshrined within CIPFA's six core principles of good governance.

### ***Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area***

15. In response to the need to act proactively to shape the future of Ashford's public services, in 2010 the Council undertook its largest public engagement exercise to date, forming a new five-year Business Plan as a result of over 2,000 questionnaires filled in by residents.
16. This document refocused the Council's effort into four key areas –
  - i. recycling and environment,
  - ii. activities for young people,
  - iii. economic development and housing,
  - iv. providing the best services resources allow
17. More recently, the Council's priorities were further articulated for the forthcoming two years in the 'Focus 2013-15' Corporate Strategy, agreed in October 2013.
18. In order to better understand the nature of the Council's key partnerships, a new partnership framework was agreed in 2011 including a set of principles underpinning good partnership governance, and this was reviewed in 2012.
19. Although a summary of the Council's accounts and Budget Book have been published annually alongside the budget and Annual Governance Statement, the ending of the old BVPI and NI performance frameworks meant that a corresponding Annual Report was no longer required. Quarterly performance management and Medium-Term Financial Planning have continued to be considered by Management Team and Members, whilst a new Annual Report is set to be agreed soon after the end of the 2013-14 financial year (May 2014).
20. The Council's financial planning and monitoring includes an emphasis on securing value for money. Although the Price Book and other benchmarking has since ended, the Council has been subject to inspection (including on value for money) by the Audit Commission through CPA and CAA, and more recently in annual value for money judgements from its current external auditors Grant Thornton. Supplementing this, the Council has involved

advisory groups when required, including for financial planning and strategy reviews.

21. More recently, traditional service planning has been overtaken by priority project planning to Management Team, and partnership-level support to the Ashford Strategic Delivery Board and others.
22. The Localism agenda provides an increasing steer to the Council's governance. Pilot work has been undertaken to explore different models for service deliver in parishes, whilst neighbourhood planning provides the opportunity for a more individualist approach to governance at the sub-district level. The Council uses an annual 'Rural Conference' and quarterly 'Parish Forums' to improve the communication and collaboration between levels of local government.
23. The Council's priorities are regularly communicated to staff through the Chief Executive's walkabouts, to Members through the regular Leader's Briefings, and to the public through the Leader's column in the Kentish Express and quarterly performance monitoring.

***Members and Officers working together to achieve a common purpose with clearly defined functions and roles***

24. The Council's Constitution is transparent, available and updated every year, and from April 2013 includes increased detail on the roles and responsibilities of the Members of the Cabinet and Portfolio Holders.
25. The Council has strengthened the relationship between Cabinet Portfolio Holders and Officers in the production of Cabinet Reports. A4 summaries of the proposed reports are circulated over a month in advance of the Cabinet date, promoting earlier interaction between Officers and Members. Portfolio Holder ownership of reports is specifically noted within the covering pages of all Cabinet reports.
26. In April 2013 two new committees were created, dealing with transport, highways and education and vocational training. The role of these committees is to advise Cabinet, and are cross-party in nature. Regular briefings are also held on upcoming planning decisions and other matters of importance, allowing for early Member involvement in forthcoming matters.

***Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour***

27. A new code of conduct for Members was agreed in 2012, whilst from May 2013 declarations of pecuniary interests for all Members have been made available through the Council's website and work is currently ongoing to do the same for all parish councils.
28. The Monitoring Officer compiles an annual report on complaints and standards of conduct.



29. Since 2008 the Council has agreed a new Anti-fraud policy, and is currently reviewing its policy on whistleblowing.

***Taking informed and transparent decisions which are subject to effective scrutiny and managing risk***

30. The Council has maintained oversight of its strategic risks within the internal audit function. The Audit Committee has received a number of reports on the responsibilities and accountability of risk throughout the organisation, whilst the Strategic Risk Register was subject to wholesale review during 2011 and 2012, and is currently subject to six-monthly review to the Council's Audit Committee. The ownership of these standard-format risks is apportioned appropriately across the authority, and these owners regularly consider their action plans to mitigate against risk and the level of risk itself.
31. The shift from primarily service-based planning to project planning has meant a shift to incorporate project risk management into operational risk. The project management of those projects currently under the Ashford Strategic Delivery Board includes risk management considerations.
32. The Council has also taken steps to embrace the transparency agenda in regard to its decision-making. Papers on priority project work for the Ashford Strategic Delivery Board are made available online and included in the Cabinet agenda, whilst the Cabinet has instituted more transparent meeting arrangements and the early publishing of key decisions.
33. From 2014 individual votes cast on budget decisions will be recorded and made publically available, alongside annual reports to Council on the work of the Overview and Scrutiny and Audit Committees. From 2009, these two committees have also had the power to cross-refer matters of interest allowing for more effective accountability on decision-making.

***Developing the capacity and capability of Members and Officers to be effective***

34. Since 2008 the Council has taken steps to strengthen the training and development offered to staff. A centrally-administered training budget links training and development with the strategic needs and objectives of the Council, operating alongside a competency framework for all staff.
35. Member training helps to prepare new councillors for their role as a Ward Member, and to strengthen skills in key areas such as in the consideration of planning matters. It is overseen by a Member Training Panel.

## ***Engaging with local people and other stakeholders to ensure robust public accountability***

36. As noted above, the Council's public engagement in 2010 when drafting its Five Year Business Plan was the largest consultation of that type it has undertaken to date. This engagement provided a strong public mandate for subsequent changes to council operations.
37. Although the Sustainable Community Strategy is no longer in place, the Council has maintained active engagement with local stakeholders, including an annual Rural Conference and quarterly Parish Forums with Parish Councils, regular briefings from the Leader in the Kentish Express and more open arrangements for the public to engage in the decision-making process.
38. The Council aims to be open and honest in its operations, and the transparency agenda has led to an increase in publically-available website information on Members and Officers which provides for greater scrutiny, including staff declarations of interest, details of staff and councillor expenses, a register of hospitality and gifts received. The Council also provides an annual Pay Policy Statement which sets out how senior staff and others are remunerated. These are all published in line with the Council's Transparency Publication Policy.
39. Quarterly performance monitoring reports on the progress of the Council's corporate priorities to Members and the public in a transparent and accessible manner, replacing the previous National Indicator and Local Area Agreement Regimes. The Council is also developing an Annual Report which will bring together the achievements across of the entire borough, including the Council, its partners and residents.

## **Risk Assessment**

40. N/A although good governance includes the provision for consideration of risk management issues

## **Equalities Impact Assessment**

41. N/A although good governance includes the provision for consideration of equalities issues

## **Other Options Considered**

42. N/A

## **Consultation**

43. N/A

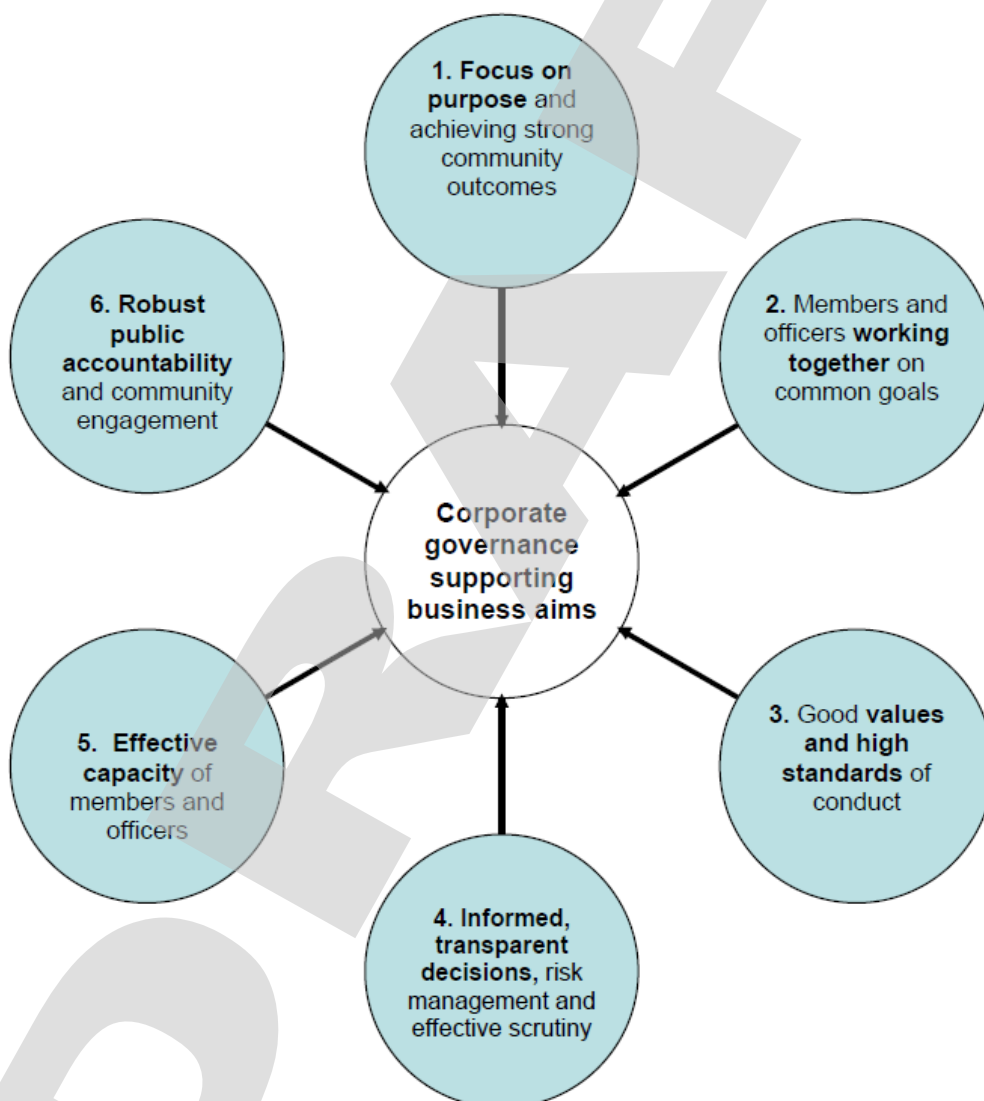
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**Ashford Borough Council's Local Code of Corporate  
Governance (2014)**

Agreed March 2014

## Introduction

1. The Corporate Governance framework comprises the systems, processes, culture and values under which an organisation manages and controls its activities.
2. The Delivering Good Governance in Local Government framework produced by CIPFA and SOLACE and published in 2007 set the standard for local authority governance and this Council produced its own Local Code of Corporate Governance in 2008. The publication in late 2012 of an updated Delivery Good Governance document makes it timely to refresh our own local code.
3. The 2012 document identified the following as the essential criteria for the provision of good governance -



4. The following sections set out the general evidence the Council will seek to maintain to demonstrate that it meets the principles set out above. The effectiveness of these arrangements are reviewed annually within the Annual Governance Statement.

# Principles of Corporate Governance

## 5. Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area

5.1. Exercising strategic leadership by developing and clearly communicating the Authority's purpose and vision and its intended outcome for citizens and users

- A Corporate Plan *Focus 2013-15*, adopted by Council in October 2013
- Further public engagement planned for 2014/15
- Annual public consultation on the budget
- Publishing an Annual Report
- Quarterly performance reporting, financial Monitoring and medium-Term financial Planning
- Ashford Voice magazine available online for all residents

5.2. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning

- Transparent priority planning through the Ashford Strategic Delivery Board, bringing local partners together to focus on eight major projects to improve the borough
- Ongoing imbedding of the new waste contract re-let in partnership with KCC, Swale and Maidstone Borough Councils
- Working with others is underpinned by our partnership framework and principles of good partnership governance
- Annual Governance Statement agreed annually and its exceptions monitored quarterly
- Maintaining effective governance arrangements when setting up trading (or other) companies

5.3. Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money

- External auditors take a judgement on value for money annually in their assessment of the authority
- Strengthened strategic understanding of value for money to be included in improvements in internal performance monitoring
- Annual Budget Book
- Well-developed medium term financial planning
- Strong track record of delivering budget savings
- New procurement strategy, agreed October 2013

## 6. Members and Officers working together to achieve a common purpose with clearly defined functions and roles

6.1. Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and roles and responsibilities of the scrutiny function

- Maintaining a Constitution which sets out roles and responsibilities of Members and Officers
- Appointing Committees to discharge the Council's regulatory and scrutiny responsibilities
- Providing Committees with clear terms of reference and a work programme which enables them to meet their responsibilities
- Close working relationship between Officers and relevant Portfolio Holder(s)
- Appointing a Chief Executive (and Head of Paid Service) and a Management Team and ensuring all staff have clear conditions of employment and job descriptions which set out their roles and responsibilities
- Appointing a Monitoring Officer who carries overall responsibility for legal compliance, working closely with other officers to advise on requirements
- Appointing a Chief Financial Officer responsible for the proper financial administration of the Council's affairs

6.2. Ensuring that a constructive working relationship exists between elected Members and Officers and that the responsibilities of authority Members are carried out to a high standard

- The Constitution is regularly updated and includes schemes for delegation
- Regular dialogue between Cabinet Portfolio Holders and Officers on reports
- Maintaining a scrutiny function which provides overview and scrutiny of all Council activities and operates a call in facility, as well as cross-referring matters if needed with the Audit Committee
- Maintaining an Audit Committee with responsibility for overseeing the governance arrangements of the Council, as well as cross-referring matters if needed with the Overview and Scrutiny Committee
- Training and development opportunities for councillors

6.3. Ensuring relationships between the authority and its partners and the public are clear so each know what to expect of the other

- Clear principles of good partnership governance followed
- Ensure transparent and inclusive Committee arrangements regarding the public
- Detailed information published on key decisions
- Pay Policy Statement including details of senior Officer remuneration and details of all invoices over £500.
- Code of Conduct for Members and Officers
- Agreed Member/Officer protocol

## **7. Promoting the Council's values and upholding high standards of conduct and behaviour**

7.1. Ensuring authority Members and Officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance,

whilst ensuring that organisational values are put into practice and are effective

- Code of Conduct for Members and Officers
- An annual report on conduct from the Monitoring Officer
- Member Training Panel promotes Member development and training
- Regularly updated financial and procurement regulations
- Effective internal audit function
- Annual performance appraisal and objective setting for Officers
- Whistleblowing and anti-fraud policies in place
- Staff declarations of interest and hospitality available online
- Annual Pay Policy Statement
- Having a clear decision-making protocol contained within the Constitution

## **8. Taking informed and transparent decisions which are subject to effective scrutiny and risk management**

8.1. Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny

- Compliance with transparency regulations including publication of details on the Council's website
- Full Council setting the policy and budget framework, including individual voting records on budget matters
- All key decisions to be taken by the Cabinet
- The decision making process being scrutinised by a scrutiny function
- Publishing a forward plan and key decisions of the Cabinet
- Minutes showing that declarations of interest were sought and appropriate declarations made
- Risk management is a consideration of all Cabinet reports

8.2. Having good quality information, advice and systems to ensure that services are delivered and are what the community needs / wants

- All key decisions are made by Cabinet being on the basis of written reports, including assessment of alternative options, consultation undertaken, financial, risk and equalities implications as well as the comments of the relevant Portfolio Holder
- Scrutiny Committee has the power to call in decisions
- Performance information published on a regular basis and is made available to Management Team
- Making provision for Members and the public to ask questions both at Cabinet and full Council meetings
- Ensuring that the Council complies with the CIPFA statements on the role of the Chief Financial Officer and Head of Internal Audit

8.3. Ensuring an effective risk management system is in place

- Maintaining a Strategic Risk Register which is updated every six months and agreed by the Audit Committee

- Incorporating project risk assessment in to the Council's priority projects and the work of the Ashford Strategic Delivery Board
- The Audit Committee has oversight of risk management arrangements
- Providing risk management training to Members and Officers as appropriate
- Risk is considered within the front page of all Cabinet reports
- Whistleblowing Policy

#### 8.4. Using legal powers to the full benefit of the citizens and communities in the area

- General power of competence allows Councils to do anything which is legal to help residents
- Clearly documented roles and responsibilities of Members and Officers in the Constitution
- Monitoring Officer's responsibilities include the guidance of Members in the maintenance of the Constitution
- Policy briefings to Management Team and Members on the implications of changing legislation

### **9. Developing the capacity and capability of Members and Officers to be effective**

#### 9.1. Making sure that Members and Officers have the skills and knowledge, experience and resources they need to perform well in their role

- Induction programme for all new staff, including staff handbook
- Annual staff appraisal system including objective setting and personal development plan
- Corporate training budget continues to prioritise spend against the competency framework and the Council's strategic objectives
- Corporate competency framework
- Ensuring all employees have up to date and relevant job descriptions
- Providing Members with regular briefings on relevant topics

#### 9.2. Developing the capability of people with governance responsibilities and evaluating their performance as individuals and as a group

- Maintaining a Member development programme
- Annual review of the activities of internal audit
- Aspiring Leaders' Programme

#### 9.3. Encourage new talent for membership of the authority so that best use can be made of individual skills and resources, balancing continuity and renewal

- Maintaining communication with Parish Councils and with voluntary organisations in the borough.
- Succession planning operates where appropriate



## **10. Engaging with local people and other stakeholders to ensure robust public accountability**

- 10.1. Challenging leadership through a robust scrutiny function which effectively engages with local people and all institutional stakeholders, including partnerships, and develops constructive accountability relationships
  - Publishing a Corporate Plan
  - Providing the residents of the borough with information about the Council and its spending
  - Maintaining an effective Overview and Scrutiny Committee
  - Parish Forum
- 10.2. Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning
  - Quarterly performance reporting to Cabinet and Overview and Scrutiny
  - Compliance with transparency legislation, including publishing all relevant information on the Council's website
  - Open and accountable public access to Committees, including a policy of holding meetings in public whenever possible
  - Monthly Ashford Voice magazine available to all residents through the Council website
  - Maintaining a comprehensive complaints / appeals procedure
- 10.3. Making best use of human resources by taking an active and planned approach to engage and inform staff
  - Maintain comprehensive and effective Personnel policies
  - Maintaining consultative arrangements with the trade unions and staffside representatives, including an effective Joint Consultative Committee
  - Regular Chief Executives walkabouts
  - Regular staff surveys and all staff workshops where appropriate

## **Monitoring and Review**

11. The Strategy and Partnerships Team are responsible for maintaining the Local Code alongside annual consideration of it – and wider governance developments – within the Annual Governance Statement.
12. The Code will be submitted to the Audit Committee for approval.

## Key documents underpinning the Local Code of Corporate Governance

1. Constitution
2. *Focus 2013-15* Corporate Plan
3. Financial Regulations and Standing Orders
4. Medium Term Financial Plan
5. Procurement Strategy / Framework
6. Officer and Member Codes of Conduct
7. Member Training and Development Strategy



# Certification report 2012/13 for Ashford Borough Council

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**Year ended 31 March 2013**

08 January 2013

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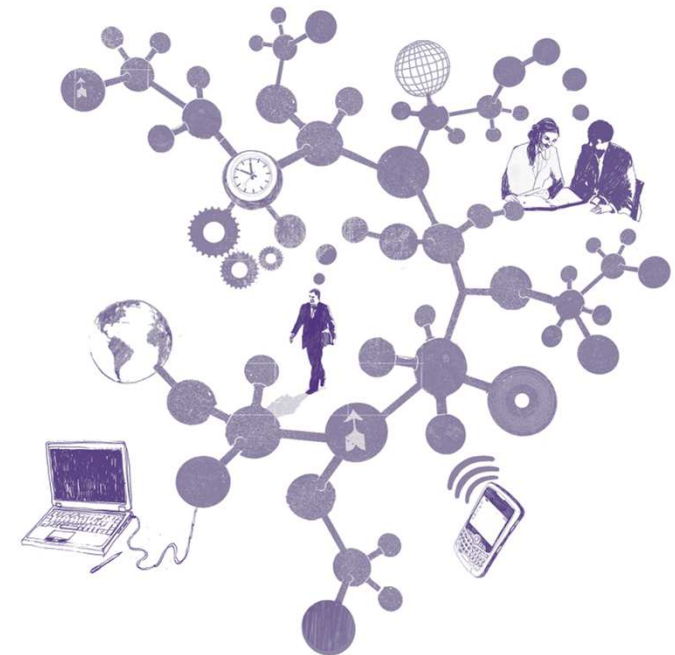
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## Section 1: Executive summary

01. Executive summary

02. Results of our certification work

# Executive summary

## Introduction

We are required to certify certain of the claims and returns submitted by Ashford Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £84.2 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

Aspect of certification arrangements	Key Messages	RAG rating
<b>Submission &amp; certification</b>	All claims continue to be submitted for audit on time and were all certified within the required deadlines.	● Green
<b>Accuracy of claim forms submitted to the auditor (including amendments &amp; qualifications)</b>	The Council continue to perform well overall: <ul style="list-style-type: none"> <li>the NNDR return was certified without amendment or qualification</li> <li>the pooling of housing receipts return was certified subject to a minor amendment of £26.</li> <li>a qualification letter was issued in relation to the Housing and Council Tax Benefit Scheme and the return amended by £727</li> </ul>	● Amber
<b>Supporting working papers</b>	Working papers provided for all claims and returns were of a good standard with clear audit trails back to the claim forms. This enabled certification within the deadlines.	● Green

### **The way forward**

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B

Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

### **Acknowledgements**

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**  
**January 2014**

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## Section 2: Results of our certification work

01. Executive summary

02. Results of our certification work



# Results of our certification work

## Key messages

We have certified three claims and returns for the financial year 2012/13 relating to expenditure of £84.2 million.

The Council's performance in preparing claims and returns is summarised below:

Performance measure	Target	Achievement in 2012/13		Achievement in 2011/12		Direction of travel
		No.	%	No.	%	
Claims submitted on time	100%	3	100	4	100	↔
Claims certified on time	100%	3	100	4	100	↔
Claims certified with amendment	0%	1	33	1	25	↔
Claims certified with qualification	0%	1	33	1	25	↔

This analysis of performance shows that:

- all claims continue to be submitted to audit on time and were certified within the required deadline; and
- the Housing and Council Tax Benefit claim was qualified in both years. However, the size and complexity of the housing benefit subsidy grant claim at most authorities is such that it is unusual for it to be certified without any amendments, and a qualification letter is often required to comply with the detailed audit certification guidelines laid down by the DWP and Audit Commission.

Details of the certification of all claims and returns are included at Appendix A.

---

## Significant findings

Our work has identified the following issues in relation to the management arrangements and certification of individual grant claims and returns:

### Certification of Housing Benefit and Council Tax Benefit Claim

The claim was certified with an amendment of £727 to subsidy claimed. This amount was under-claimed because a property had been set up with the incorrect number of bedrooms. Further work undertaken by the authority proved this to be the only error of its type.

The claim was also qualified as a result of the following:

- **Calculation of self employed income** – our initial testing identified 4 errors, where self employed earnings had been incorrectly calculated based on the evidence provided. As a result an additional sample of 80 cases were tested and a further 25 errors identified. We found that there was no consistent policy in place and calculations often varied by assessor.
- **Input of earned income** – initial testing identified 2 errors where income figures were incorrectly input. As a result, an additional sample of 40 cases were tested and 4 further errors identified.
- **Overpayment classification** – initial testing identified one case where the authority incorrectly classified an overpayment as eligible when it should have been classified as LA error. Additional testing of 40 cases identified one further error.
- **Input of child tax credit** - initial testing identified one case where benefit had been overpaid as a result of incorrect input of child tax credit information. Additional sample of 40 cases also identified one further error.

A recommendation for improvement is included in the action plan at Appendix B with regards to the self employed earnings calculations.

Note that all other errors are input related and given the high volume of transactions processed, human errors will inevitably occur.

### Certification fees

The Audit Commission set an indicative scale fee for grant claim certification based on 2010/11 certification fees for each audited body. The indicative scale fee for the Council for 2012/13 is £12,700. This is set out in more detail in Appendix C.

A fee variation of £5,000 has been proposed and agreed with officers. This reflects the additional work undertaken on the housing benefit claim to review the five 40+ testing areas. Note that the fee variation is not considered final until it has been confirmed by the Audit Commission.

# Appendices

## Appendix A: Details of claims and returns certified for 2012/13

Claim or return	Value	Amended ?	Amendment (£)	Qualified?	Comments
Housing and council tax benefit scheme	£45,271,269	Yes	£727	Yes	Detailed findings on page 8.
National non-domestic rates return	£37,703,501	No	-	No	No issues identified and claim was certified without amendment or qualification.
Pooling of Housing Capital Receipts	£1,250,468	Yes	£26	No	Minor amendment only due to missing interest on a late payment.
<b>Total</b>	<b>£84,225,238</b>		<b>£753</b>		

## Appendix B: Action plan

### Priority

**High** - Significant effect on arrangements

**Medium** – Some effect on arrangements

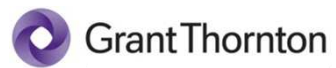
**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p><b>Housing and Council Tax Benefit</b></p> <p>Review and training to address issues identified by the 2012/13 audit including:</p> <ul style="list-style-type: none"> <li>• consistent policy when determining the self employed earnings figures to be used in benefit calculations.</li> <li>• input of earned income and child tax credit</li> <li>• overpayment classification</li> </ul>	M	Self-employed income assessment is a specialist & difficult area of benefits processing, and therefore specialist officers will be used to carry out these assessments. In view of some inconsistencies identified in the audit concerning use of income & expenses, revised guidance will be issued to staff in order to provide further clarity and a consistent base for assessments.	Revenues and Benefits Operations Manager

## Appendix C: Fees

Claim or return	Actual 2011/12 fee (£)	2011/12 fee (£) less 40% *	2012/13 indicative fee (£)	2012/13 actual fee (£)	Variance year on year (£)*	Explanation for significant variances
Housing benefits subsidy claim	20,557	12,334	11,130	16,130	3,796	More errors identified in 2012/13 compared with prior years, resulting in more additional testing.
National non-domestic rates return	1,021	613	1,180	1,180	567	Parts A and B testing completed in 2012/13. 2011/12 was part A only.
Pooling of housing capital receipts	517	207	390	390	183	Parts A and B testing completed in 2012/13. 2011/12 was part A only.
Planning and reporting to those charged with Governance	447	268	-	-	268	Included in the fees for the individual claims above.
<b>Total</b>	<b>22,542</b>	<b>13,422</b>	<b>12,700</b>	<b>17,700</b>	<b>4,278</b>	

\* 2011/12 fee less 40% fee reduction applicable for 2012/13 onwards. This is shown in this way to make it comparable to the 2012/13 fee.



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**Agenda Item No:** 6  
**Report To:** **Audit Committee**  
**Date:** 18 March 2014  
**Report Title:** Presentation of Financial Statements  
**Report Author:** Maria Nunn – Principal Accountant  
Ben Lockwood – Finance Manager



**Summary:** The Council is required to follow statutory guidance for the publication of its accounts. Each year, this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2013/14. In addition, the report reviews on the lessons learnt from accounts process for 2012/13.

The Council has completed a review of its accounting policies that will be used for the production of the statement of accounts

**Key Decision:** No

**Affected Wards:** None specifically

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

- **Note the report**
- **Approve the accounting policies for the 2013/14 accounts. (Appendix A)**

**Financial Implications:** None

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

**Equalities Impact Assessment** No

**Other Material Implications:** None

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## **Report Title: Presentation of Financial Statements**

### **Purpose of the Report**

1. To update members on the progress of the production of the Statement of Accounts 2013/14 (the Statement) and how changes are to be managed and implemented.

### **Issue to be Decided**

2. Members are asked to note the report and 2013/14 Statement of Account changes.

### **Background**

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March by the end of June. These are then audited by the Council's external auditor and an opinion issued by the end of September.
4. This year there are a few changes to the Code (Code of Practice on Local Authorities Accounting) for incorporation into the final accounts for 2013/14.

### **Audit Wrap Up and Closing Timetable**

5. Officers met with the audit team to discuss any issues that had arisen in the closing process for 2012/13 in the autumn and have included the lessons learnt into the closing timetable and approach for 2013/14.
6. Overall officers and auditors were happy with both the audit process and happy with the working relationship. Holding regular update meetings through the audit is important and needs to be maintained for 2013/14 closing period.
7. The 2012/13 Accounts were the first set of statements audited under the new audit arrangements. The Audit Commission appointed Grant Thornton to be our auditors and whilst a number of personnel transferred with the contract there was a different audit approach with a greater reliance on substantive testing rather than controls testing.
8. The Audit Plan for the audit of the 2013/14 accounts is reported elsewhere on the agenda and includes a timeline for the audit cycle.
9. Officers have completed a draft closing timetable that is currently being reviewed by the Accountancy team. The key deadlines are:
  - service revenue accounts and Collection Fund closed by 18 April
  - balance sheet codes closed by 9 May
  - a draft statement by 31 May

10. This is consistent with previous timetables and we have procured an additional resource to support the team through this process as cover for the long term sickness in the team. The timetable is, therefore, considered achievable however the introduction of a new system for business rates accounting presents a new challenge, and the Major Preceptors will be requesting data on Business Rates accounting entries for their accounts by the end of April which will be considerably earlier than in previous years when the data has only been required by central government.

### **Accounting Changes for 2012/13**

11. With exception of Business Rates retention there are no major changes to the Code this year. Updates refer mainly to clarifications in the code in a number of areas where there was previously a degree of uncertainty.
12. the updates cover:
  - Pensions there have been a number of amendments to the accounting standard that deals with Pensions (IAS19), this has led to changes in some of the disclosures. The amendments are not expected to have a material impact on the financial statements.
  - Revaluation of assets – the auditors need to satisfy themselves that there has been no material difference in the fair value of the asset and its balance sheet value. This may affect the council if there is a significant gap between revaluations. This year all assets have been revalued and therefore this change should not affect the accounts this year.
  - Employee benefits
  - Reduction in HRA disclosures
13. These either have no significance for this Council or are not considered material at this stage.
14. A review of the Councils accounting policies has been undertaken and a copy of the proposed policies to be applied for 2013/14 is attached at **appendix A** for approval. There are no major changes to the policies but they have been refined and updated with any duplication has been removed.

### **Collection Fund Accounting**

15. The accounts for 2013/14 marks the commencement of the local retention of business rates. The detail of this scheme has previously been reported in some detail to members as part of the budget setting process, however the accounts will reflect this new system for the first time. The accounting policies have been amended accordingly.
16. The accounting treatment for NNDR will be broadly similar to the approach for council tax with the major preceptors each having to account for their share of business rates income, and associated balance sheet disclosures.

17. To respond to this process officers have attended training events and are about to complete a trial close down of the collection fund to identify any issues before year end.

## **Audit Recommendations for 2013/14 Accounts**

18. The Commission made one recommendations in their Action Plan following the audit of 2012/13:
  - The Council should ensure that related party declaration forms are completed annually by all Councillors.
19. The related party declaration form has already been dispatched to members giving additional time for members to complete the form. We will work with group leaders to ensure that all members are encouraged to complete the return.

## **Risk Assessment**

20. For the 2013/14 Statement of Accounts there are few changes to the format of the statement and material changes to accounting policy. Therefore the risks are considered to be low.

## **Consultation**

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

## **Conclusion**

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

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## **Draft Accounting Policies**

### **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 2013/14' (the Code) and the 'Service Reporting Code of Practice 2013/14'.

#### **1. Accounting Concepts and Conventions**

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of assets and financial instruments.

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. The International Accounting Standards Board (IASB) Framework, paragraph 24, 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, 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.

### 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, Corporate Democratic Core/Non Distributed Costs. The basis of allocation used for the main costs of management and administration are outlined below:

<b>Cost</b>	<b>Basis of Allocation</b>
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. From April 2013, the Council retains 40% of National Non-Domestic (Business) Rates with 50% is paid into a national pool and 10% shared with major precepting 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 amount

owed to/from ratepayers in respect of Business Rates retained by this Council. Amounts of Business Rates in respect of the net amount of National Non-Domestic (Business) Rates received and paid over to the national pool are shown as a net debtor or creditor.

The amounts shown as Council Tax/Business Rates in the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement represent the amounts 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 and Support Services 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 have a direct 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 Comprehensive Income and Expenditure Statement, 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. Potential 'Right-to-buy' sales are not accounted for until the date of sale as they are not actively marketed in any conventional way.

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. (This Council does not hold any property which meets the definition of 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 and are subject to straight-line depreciation over the expected life of the asset. . 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).

##### 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 1<sup>st</sup> 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 Accounting 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.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

International Financial Reporting Standards (IFRS) require 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. For componentisation to be considered, the Council has set a minimum asset value of £1,000,000 and, then, separate depreciation is only calculated where a component size is at least 10% of the value.

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 are accounted for within 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 accounting policies 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 31<sup>st</sup> March 2010, regulations allow these capital receipts to remain credited to the Comprehensive Income and Expenditure Statement

## **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 un-collectable 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 International Public Sector Accounting Standards (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 2013/14, 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 X.X% 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;
  - Unitised securities – current bid price;
  - Property – market value.
- The change in net pensions liability is analysed into five 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.
  - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/(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 2014 and should reflect prevailing interest rates as at that date. Full details of this disclosure are included in Note XX on page XX

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 XX on page XX.

The Code's disclosure requirements in relation to credit risk are equally applicable to outstanding debtors. Note XX on page XX 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 – see paragraph 16.3 above.

## 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.

**Agenda Item No:** 8  
**Report To:** **Audit Committee**  
**Date:** 18 March 2014  
**Report Title:** Six Monthly Strategic Risk Update  
**Report Author:** Ian Cumberworth – Internal Audit Manager  
Brian Parsons – Head of Audit Partnership



<b>Summary:</b>	The report sets out the current 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 and agree the changes to the strategic risk scores in terms of 'likelihood' and 'impact'.
2. Note the actions that are being taken to manage the risks (as shown in the attached appendix) and confirm that it is satisfied with the actions.

**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.

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## Report Title: Strategic Risk Update

### Purpose of the Report

1. The report sets out the arrangements in place for Strategic Risks and reflects the position after the recent risk update exercise undertaken in February 2014. Management Action Plans have been updated and amended to reflect the action being taken to manage the risks.
2. 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 taken to manage the Council's strategic risks.

### Issue to be Decided

3. The Audit Committee is asked to agree the amendments to the risk scores, in terms of likelihood and impact, and to confirm that it is satisfied with the action that is being taken to manage the Council's strategic risks

### Background

4. The Council is committed to the effective management of risk and utilised Zurich Municipal Risk Management Services to undertake a fundamental review of strategic risk in 2012.
5. The Council needs to manage risks effectively as part of its overall governance arrangements. The Audit Committee has a crucial role in this process.
6. Senior managers (risk owners) have reviewed their allocated risk and have now adjusted the risk profile (in terms of likelihood and impact) as appropriate to reflect the changing risk environment and the actions that have previously been taken to manage the risk.
7. The following table sets out the movements in the risks since the previous report to the Committee in September 2013.

	<b><u>Corporate Strategic Risk (CSR)</u></b>	<b><u>Target Score</u></b>	<b><u>Score as at September 2013</u></b>	<b><u>Movement</u></b>	<b><u>Current score March 2014</u></b>
1a	<b>Economic Growth</b>	3/2	4/3	↔	4/3
1b	<b>Right mix of quality housing</b>	3/3	4/3	↔	4/3
2	<b>Volatile Income Streams</b>	5/2	6/3	↓	5/2
3a	<b>Community Demands</b>	2/2	3/2	↔	3/2

3b	Consequences of Welfare Reform	3/3	4/3	↓	3/3
4	Opportunities for Localism	2/3	3/3	↔	3/3
5	Workforce Planning	3/2	4/3	↓	3/3
6	Members skills, capacity & experience	2/2	3/2	↔	3/2
7	Business Planning	3/3	4/3	↔	4/3
8	Housing	3/3	4/3	↓	3/3
9	Infrastructure	5/3	6/3	↔	6/3

#### Key

(Likelihood: 1 Almost impossible, 2 Very Low, 3 Low 4, Significant, 5 High, 6 Very High)  
(Impact: 1 Negligible, 2 Medium, 3 Severe, 4 Major)

8. Of the eight risks that were within the 'red risk area' in September 2013, four risk scores have now improved in terms of their scoring:

- CSR 2 Volatile Income streams and MTFP
- CSR 3b Consequences of Welfare Reform
- CSR 5 Workforce Planning
- CSR 8 Housing.

Four risks remain in the 'red risk area' at March 2014.

- CSR 1a Economic Growth
- CSR 1b Right mix of quality housing
- CSR 7 Business Planning
- CSR 9 Infrastructure

9. The consolidated risk profile matrix is shown at Appendix 1. The shaded (red) top right hand area of the matrix represents the authority's highest risks.

#### Action Plans

10. Each risk owner is required to update their risk management action plan every six months. 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.

11. The detailed action plans (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 the risk owner 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

## **Risk Assessment**

12. 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.
13. 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**

14. 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**

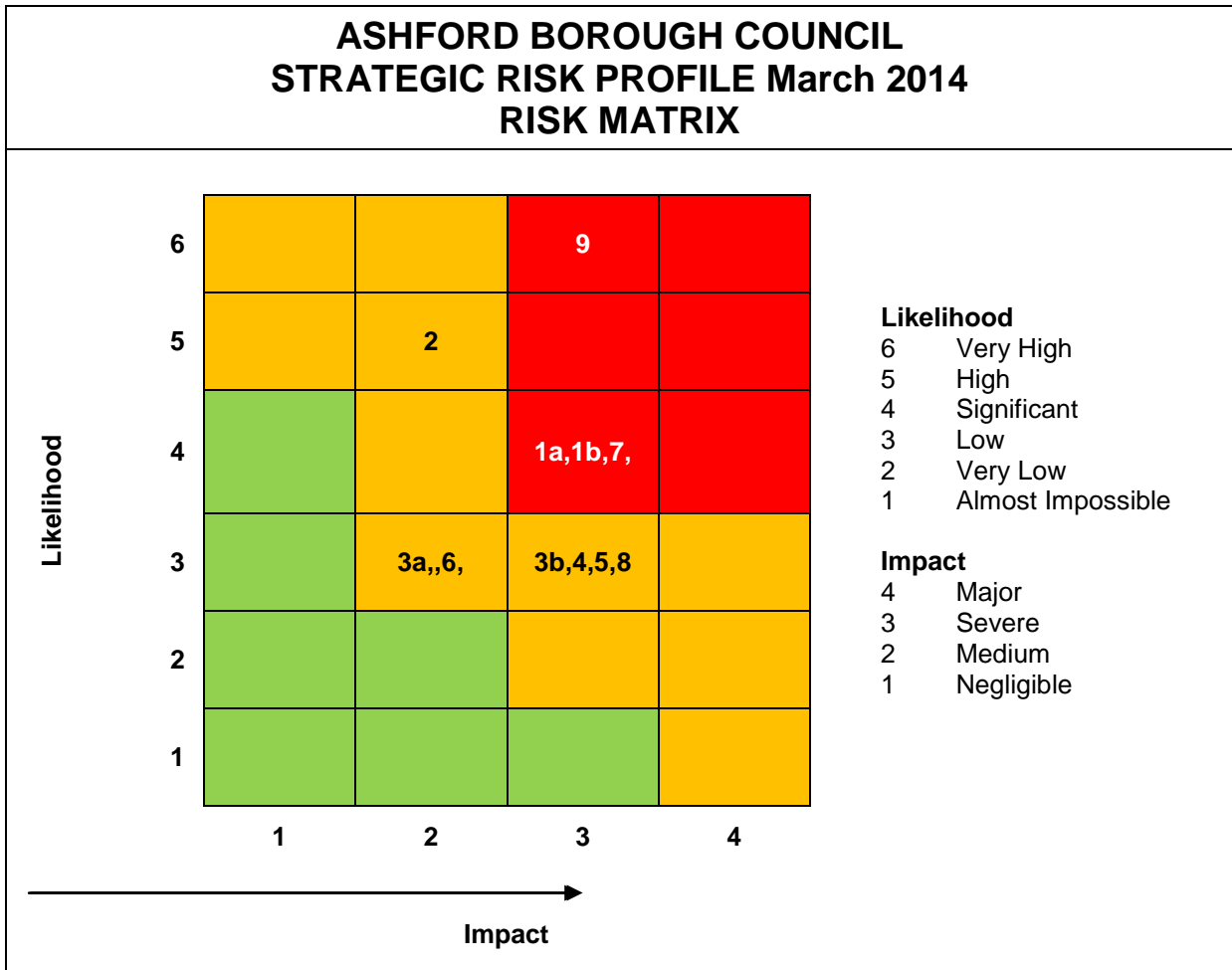
15. The risk owners are responsible for the management of their risks.

## **Implications Assessment**

16. A strategic risk register with proper arrangements in place for monitoring the management of the risks is a vital element of the Council's governance/strategic management arrangements

**Contact:** Ian Cumberworth

**Email:** [ian.cumberworth@ashford.gov.uk](mailto:ian.cumberworth@ashford.gov.uk)



Risk No	Strategic Risk	Score
1a	Economic Growth	4/3 Significant/Severe
1b	Mix & Quality of Housing	4/3 Significant/Severe
2	Volatile Income Streams	5/2 High/Medium
3a	Community Demand & Expectations	3/2 Low/Medium
3b	Consequences of Welfare Reform	3/3 Low/Severe
4	Opportunities for Localism	3/3 Low/Severe
5	Workforce Planning	3/3 Low/Severe
6	Members skills, capacity & experience	3/2 Low/Medium
7	Business Plan	4/3 Significant/Severe
8	Housing	3/3 Low/Severe
9	Infrastructure	6/3 Very High/Severe

## 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 Significant/ Severe	3/2 Low/Medium	Risk of <b>lack of economic growth</b> in the borough / lack of facilitation of job creation / an inappropriate balance of jobs leading to a decline in average earnings
<p>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.</p>			



Actions/controls already in place	Adequacy of action/control to address risk	Required management action/control	Responsibility for action	Critical success factors (outcome)	Review Frequency		
Promotion of economic development through dedicated ED team with increased staffing; planning – targeted approach to major employment schemes and 'business friendly' service, site negotiations and approvals; media and marketing activities	Adequate – additional staffing recruited and a targeted approach being taken to key projects	Continued focus on 'economic growth' approach across the Council as part of the medium term financial strategy and the Unit's own priority approach to business activity. 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	[Milestones/deadlines] [deadlines/milestones]	
Intervention by the Council to deliver the Commercial Quarter – in process of purchasing International House and surrounding land and then committed to bringing forward a phase 1 office proposal	Adequate – due diligence carried out and measures to share risk of development with private sector being pursued	Carefully risk assessed approach to bring forward development in an emerging market without undue risk exposure for the Council. Management of property assets to maintain strong income flow as central Government direct grants to local authorities reduce.	John Bunnett	Progress in bringing forward phase 1 office scheme; maximising rental income stream from well managed investment	3 months		
Range of partnership activity with the <i>Strategic Delivery Board</i> , Locate in Kent, Homes and Communities Agency and others	Adequate	Strategic Delivery Board set up to help drive project delivery. 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 <i>and secure maximum investment into Ashford and East Kent from the South</i>	Richard Alderton	'Big 8' project delivery progress and financial support achieved through the LEP and other funding	3 months		

<p>Specific initiatives such as Portas funding; deferred developer contributions; broadband access to rural areas; GREENOV support for sustainable energy sector; etc</p>	<p>Adequate and injection of new ED staffing resources is now helping to deliver projects</p>	<p><i>East LEP</i>. Regular working with LIK continues.</p> <p>Key areas are now being delivered - (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.</p>	<p>Andrew Osborne</p>	<p>sources</p> <p>Concentrate resources on key priorities and apply any extra on a risk assessed basis to new opportunities</p>		
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**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 <b><u>the right mix and quality of housing</u></b> – 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	
'Quality Agreement' approach being trialled at Chilmington Green with the potential to be adopted elsewhere	Adequate	Quality Agreement signed by developer team and work underway to link it to the emerging Design Code for the area and to produce a business plan for the Quality Monitoring Team	Richard Alderton	Developer team sign up to Quality Monitoring Team and completion of Design Code; 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). An improving market increases the prospect of securing contributions that were deferred.	Richard Alderton	Adequate mix of housing delivered to address needs as far as possible	3 months	[Milestones/deadlines]

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'.		
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# Management Action Plan

## Risk 2

### Volatile Income Streams –

### Medium Term Financial Planning

Risk Owner Paul Naylor

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

Risk Number	Current Risk Score	Target Risk Score	Risk Description
2	5/2 High/Medium	5/2 High/Medium	The possibility that financial planning assumptions about <b>key income streams</b> 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 <b>Current position at March 2014</b>	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	MTFP process is further developing to ensure stronger awareness and direct input by Leader and cabinet in plan formulation. Furthermore, the assumptions are now formally scrutinised through the Overview and Scrutiny Committee's budget scrutiny task group. The finance team has developed its processes that provide the data needed to make informed forecasts. From April 2014 a reorganisation of financial services will take effect designed to enhance both the resource and focus needed to effectively manage the council's strategic income risks and opportunities.	BL and PN	<p>Across all points, success would be measured through:</p> <ul style="list-style-type: none"> <li>• Ideally good predictions leading to good plans and not too many surprises</li> <li>• Effective scrutiny</li> </ul>	<p>Across all points</p> <p>PN and BL to review progress and effectiveness with MT, Leader, and portfolio holder on periodic basis.</p>	Initial work to be completed for an autumn Budget Statement to Cabinet, autumn 2013. Completed	
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 and monitoring is now ongoing. Results now 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"> <li>• Well informed organisation</li> <li>• External acknowledgement of good methods, for example from external auditors</li> </ul>	<p>Formal reports on MTFP at least twice yearly and available for scrutiny input.</p>		
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. The development work is still ongoing. 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				

<b>Action/controls already in place</b>	<b>Adequacy of action/control to address risk</b>	<b>Required management action/control</b> <b>Current position at March 2014</b>	<b>Responsibility for action</b>	<b>Critical success factors (outcome)</b>	<b>Review frequency</b>	<b>Key dates</b>
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. Note our financial management arrangements continue to be well-regarded by our external auditors, as commented on in the annual audit letter.	BL			
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)	Good foundation to build on with current arrangements	The finance team along with the DCX has maintained regular briefings for the management team and members on importance of managing income opportunity and risk and of legislative developments in this area. Furthermore the briefings to the council tax and welfare reform task group ensure members are well-informed on matters specifically relating to the government's welfare reforms.	BL			
6. New income generating opportunities and risk	Good	More emphasis is now given in the council's business plan and budget to generating new sources of income from less traditional methods (for example the creation of the council controlled companies) using legislation now available.. A key objective of the medium term plan is the aim to substitute new income from more commercial approaches for vastly dwindling general revenues grants from government. Appropriate governance arrangements ensure that risks associated with income generation from more commercial approaches are managed.				



# 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	Risk Description
3a	3/2 Low/ Medium	2/2 Very Low/Medium	The possibility that <b><u>the Council fails to fully understand levels of demand / fails to manage expectations / fails to provide relevant services to the local community</u></b>
<p>Vulnerability: The Council continues to manage a reducing resource base at a time when the needs of the community are increasing, for example as a result of extreme weather events. 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, especially when coupled with a decreased guarantee of government funding and year on year budget pressures.</p>			

Action/controls already in place	Adequacy of action/control to address risk	Current position (March 2014)	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> <li>▣ Aligned funding to VCS with the corporate priorities of the council through SGG</li> </ul>	Adequate but under continued pressure	In recognition of the difficult financial situation faced by the Voluntary & Community Sector, in February 2014 Cabinet agreed to maintain discretionary rate relief allocations at current levels for two years.	Policy Team		Annually	<b>Many are ongoing, organic projects rather than milestone</b> [Milestones/deadlines]
<ul style="list-style-type: none"> <li>▣ Rolled out liaison officers to local communities (see 4)</li> </ul>	Adequate Good	A Review of the VCS will be conducted during 2014 Liaison officers offer ongoing communications and facilitation mechanism in certain rural areas	Paul Naylor			
<ul style="list-style-type: none"> <li>▣ New corporate strategy (Focus 2013-15) agreed by Cabinet in October 2013</li> </ul>	Good	Published on the Council's website; enhanced resources agreed to enable delivery of important projects	Policy Team			
<ul style="list-style-type: none"> <li>▣ 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</li> </ul>	Good		Richard Alderton	Lack of substantive objections to upcoming policy changes		
<ul style="list-style-type: none"> <li>▣ The council actively engages with community groups such as the Parish Forum, Kent Associations of Local Councils (KALC) and urban community forums</li> </ul>	Good	Continue to liaise with residents and community representatives over any substantive changes to council operations e.g. finance through Parish Finance Working Group	Policy Team			
<ul style="list-style-type: none"> <li>▣ Understanding of local economic, demographic and governance issues to incorporate into more detailed policy-setting</li> </ul>	Adequate and improving	Ongoing – new community governance options for the Ashford urban area are currently being explored. Community Urban Forums are currently undertaking consultation	Policy Team	A compliant exercise to review community governance arrangements		
<ul style="list-style-type: none"> <li>▣ Used existing and new partnerships to reach out and understand better the needs of local communities</li> </ul>	Adequate	Ongoing to maintain active engagement and membership of strategic partnership groups i.e. Health & Well Being Board, Community Safety Partnership, Ashford Strategic Delivery Board	Paul Naylor			

<ul style="list-style-type: none"> <li>■ Consulting / Implementing a new Council Tax Benefit scheme to comply with government policy</li>   <li>■ Begun implementation of wider Welfare Reform agenda.</li> </ul>	<p>Good</p>	<p>Local scheme for 2014/15 implemented following Members' review and public consultation. Substantial focus on welfare reforms achieved through partnership working and a Member Task Group focus</p> <p>Partner meetings held to discuss a mutual approach and to monitor the situation</p>	<p>Pa`ul Naylor</p>	<p>New Business Rate Relief Scheme agreed</p>		
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## Management Action Plan Credit

Risk Owner Paul Naylor

## Risk 3b Consequences of Welfare Reform, including Universal

Likelihood	6				
	5				
	4				
	3			<b>3b</b>	
	2				
	1				
		1	2	3	4
		Impact			

Risk Number	Current Risk Score	Target Risk Score	Risk Description
3b	3/3 Low/Severe	3/3 Low/Severe	The possibility the Council fails to anticipate <b><u>the consequences of the welfare reforms including the introduction of the Universal Credit</u></b> / fails to fully prepare and manage the budget consequences
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.			

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control  Current Position at March 2014	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<p>1. Proactive involvement with government departments and other local authorities to understand and also help to inform development of Universal Credit (UC).</p>	<p>Good</p>	<p>Internal officer group working well with the local DWP partnership manager on plans and to keep the cabinet's council tax and welfare reform task group abreast of and prepare recommendations for the council's proactive response to welfare reform and UC plans. A jobs focused partnership agreement with Jobs Centre Plus agreed by Cabinet with action plans now being taken forward. Practical planning for a UC support services delivery partnership (in conjunction with local partners from DWP/KCC/the voluntary sector/housing providers) now underway with potential for a formal UC pilot partnership.</p>	<p>Internal Officer Welfare Reform Working Group to oversee this plan, but then to transfer oversight to member task group.</p>	<p>UC is not a council reform, but a reform that will impact on many residents, who may well turn to the council for support in a number of ways, or to the VCS for advice and support.</p> <p>Success of UC is dependent on government and its design of the system.</p> <p>Success for the council will mean:</p> <ul style="list-style-type: none"> <li>* being well informed and transferring this to residents and other stakeholders</li> <li>* being seen to be supportive where possible</li> <li>* minimising disruption to affected residents where feasible</li> <li>* good contingency plans</li> </ul>	<p>Ongoing throughout the UC development programme to late 2013 and then beyond to full operation post 2015 - this is a long term issue</p>	

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control  Current Position at March 2014	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
2. Internal working group to assess service and resident impacts	<b>Good</b>	- Officer group is routinely gathering data to measure the welfare reform service impacts. Monthly data are now also provided by the local CAB. The data are summarised and reported to the bi-monthly cabinet 'council tax and welfare reform' task group. April Cabinet meeting to receive comprehensive 2013-2014 annual impact report.				
3 Planned briefings for Management Team and involvement of members in service action planning	<b>Good</b>	Extensive briefings to officers and members carried out during 2013. Further, but specific to UC, briefings form part of the above Task Group's agenda, and will be rolled out more generally when more detailed plans for UC are available from government.				
4. Planned engagement with the voluntary and community sector to help develop action plans	<b>In development</b>	Good working relationship on welfare reform established with the local CAB. In March 2014 the second council and voluntary sector welfare reform review meeting took place as part of the council's aim to understand and assist with impacts for the voluntary sector.				

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control  Current Position at March 2014	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
5. Intention to consider resource impacts and make recommendations accordingly	<b>Good</b>	<p>– Has been a regular focus for the internal officer group with various adjustments to staffing, systems and support for the local CAB being made both prior to welfare reforms introduction in April 2013 and subsequently. Indications are that measures taken have been effective and demands on services now stabilised. Funds for this are coming mostly from government and via the use of KCC's 'council tax support' administration grant (a grant available for three years).</p>				
6. Local communications strategy and plans in draft	<b>Excellent</b>	<p>ABC has developed a comprehensive communications plan for welfare reform. Good information and media briefings available in various formats. This has included advice for residents regarding 'pay day' loans and more recently publicity concerning the council tax support scheme for 2014-2015..</p> <p>ABC has continued its proactive stance with our local banks to encourage them to promote their free basic banking facilities at the gateways. April Cabinet to receive proposals to help publicise the role and advantages of the Kent Savers Credit Union.</p>				

Action/controls already in place	Adequacy of action/control to address risk	Required management action/control  Current Position at March 2014	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
7. Already working with KCC on customer service and social fund transfer issues	<b>Good</b>	Risk reduced for ABC since KCC decided to operate the social fund scheme at county level from April 2013. However KCC's position with the scheme is less certain as central government has announced possible discontinuation of funding support from 2015. On council tax support KCC is providing a significant grant to each district council for three years to help districts with pressures on administrative and customer services. ABC has used some of this grant for extra customer and back offices processing services.				
8. Particular attention to housing service and customer impacts, and therefore need for service, resource and policy change	<b>Good</b>	The internal working group and the member task group are closely focusing on housing and customer impacts. Specifically the impacts of the new 'welfare intervention officer' posts are reported and evaluated, with good outcomes so far achieved.				
9. Intention to engage with the private rented sector, and to engage with younger people regarding awareness raising and signposting for assistance	<b>Good</b>	– <b>The</b> communications plan covers all these aspects and work is currently ongoing.				



## 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	Risk Description
4	3/3 Low/ Severe	2/3 Low/Severe	The possibility of failing to continue to recognise <u>opportunities for localism</u> for the community / fail to take a clear leadership role/fail to be consistent around managing opportunities.
Vulnerability: A risk that the Council is not seen to place appropriate emphasis on the localism agenda.			

Action/controls already in place	Adequacy of action/control to address risk	Current position (March 2014)	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> <li>■ Officers assigned to 4 areas (Parishes) with particular local issues to help break down barriers and facilitate change</li> <li>■ Piloted a number of localism initiatives, such as the parish handyman scheme</li> <li>■ Increased the local influence and accountability of Ward Members through a local grant scheme</li> <li>■ Fully complied with the government's transparency agenda</li> <li>■ Taken a collaborative officer-member approach to implementing new community rights as set out in the Localism Act (Community Right to Challenge and Bid)</li> <li>■ Maintain a focus on the rural aspects of localism, council now has a Portfolio Holder with responsibility for rural issues</li> </ul>	<p>Adequate</p> <p>Good</p> <p>Good</p> <p>Good</p> <p>Good</p> <p>Good</p>	<p>[see 3a]</p> <p>Embedded in a couple of areas, further investigation will be undertaken as part of the Council's new grounds maintenance contract</p> <p>First year of grants was reviewed and reported to Cabinet in June. Second year now in place and funding increased for 2013/14, although question as to whether this level will be sustained.</p> <p>Ongoing – officers will feed in to any government consultations which come out</p> <p>Following initial implementation, refinements have been proposed and will be submitted to Cabinet in a report in April 2014</p> <p>New Homes Bonus and Community Infrastructure Levy allow the council to begin addressing community needs, including rural. NHB Policy in process of development</p>	<p>Policy Team</p> <p>Policy Team</p> <p>Policy Team</p> <p>Paul Naylor</p> <p>Policy Team</p> <p>Policy Team &amp; Planning Policy</p>	<p>Set of principles to underpin all further discussions related to the localism agenda</p>	<p>6-monthly</p>	<p><b>3 months for agreed principles</b> [Milestones/deadlines]</p>

Action/controls already in place	Adequacy of action/control to address risk	Current position (March 2014)	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> <li>■ Taken steps to begin addressing the unique challenges to localism posed by the un-parished urban area</li> <li>■ Neighbourhood Planning and other instruments brought in by government</li> </ul>	<p>Adequate and improving</p> <p>Good</p>	<p>[see 3a]</p> <p>Ongoing management and community liaison – Neighbourhood Planning has begun in Wye and Rolvenden, whilst also recently agreed for Bethersden</p>	<p>Policy Team</p> <p>Planning</p>			

**Management Action Plan**

**Risk 5 Workforce Planning**

**Risk Owner**

**Michelle Pecci**

Likelihood	6				
	5				
	4				
	3			<b>5</b>	
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
5	3/3 Low/ Severe	3/2 Low/Medium	Risk of a lack of effective <b>workforce planning</b> / risk that key managers / staff leave and no obvious replacements are found.
Vulnerability: The Council needs to develop a more flexible workforce and in doing so assess what skills are required to meet current and future needs. It also needs to undertake effective succession planning to avoid being over reliant on key managers / staff who are leading the delivery and implementation of the Council's strategic plan.			

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
Some isolated succession plans are in place to deal with short term specific service based risks.	Adequate some improvement needed	<p>Management and leadership development heavily invested in during 2013/14 helping services prepare for future turnover and change. Service level succession plans held locally by service managers as part of resilience planning and resource planning. Some further work at Strategic Management level to commence during early 2014/15. All succession plans to be monitored and reviewed by services in light of turnover to maintain currency and in response to potential future staff reductions.</p> <p>supported in formalising a longer term approach to service succession</p>	Personnel & Development and Services	All services have identified key posts and where there are no successors	Ongoing updates in response to people/role changes. Annual formal review	End Q2 first draft of CH&Ps available
		<p>The second cohort of the leadership development programme commenced in July 2013 and other management development training is cascading to officers at other levels.</p>	Personnel & Development	Delegates, and the organisation are able to explain how their work had been positively impacted by the leadership programme	Course Evaluation throughout programme , formal review of impact of overall programme by Q1 2014/15	Cohort 2 completed April 2013

<p>Generic working is being implemented in areas where this risk has been identified as part of a general acceptance of the changing nature of the skills required within specific disciplines.</p>	<p>Adequate some improvement needed</p>	<p>Greater formalised generic and flexible working across teams and services. The introduction of the 'Eyes and Ears' reporting tool has been introduced and is currently being tested.</p> <p>IT are working on other technology solutions to support services in more efficient working and members have approved additional funding for an IT Systems Developer to help progress this work stream</p>	<p>Business Change and Technology</p>	<p>Improved responsiveness to customers, better use of resources.</p>	<p>Monthly as part of corporate project monitoring</p>	<p>April 2013</p>
		<p>More stringent job description review at recruitment stage to look for opportunities to introduce more flexible roles. A 'generic manager' approach has been introduced by Health, Parking &amp; Community Safety and will be model other services will follow as opportunities arise. This will enable the team to deploy its resources as efficiently and effectively as possible to be able to respond to demands.</p>	<p>All Managers and Personnel &amp; Development</p>	<p>All opportunities to improve flexibility of roles taken.</p>	<p>On going</p>	<p>Ongoing</p>

		<p>Recommendation to introduce a generic enforcement team to be bought forward during Qtr1 2014/14</p> <p>Skills audit which identifies current skills base and future skills requirements. This will inform a development needs analysis that will be delivered through the training budget.</p> <p>Skills repository to be rolled out as part of the new intranet to assist the council in deploying skills more effectively whilst providing development opportunities for staff</p> <p>Immediate/short term Learning &amp; Development needs are identified annually during the appraisal process and this process.</p>	<p>Personnel &amp; Development and Services</p>	<p>Critical skills identified and development plans in place to address gaps</p>	<p>Annually as part of appraisal reviews</p>	<p>On-going</p> <p>Training needs analysis Q1</p>
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## Management Action Plan

## Risk 6 Members skills, capacity, experience Risk Owner Terry Mortimer

Likelihood	6				
	5				
	4				
	3		<b>6</b>		
	2				
	1				
		1	2	3	4
		Impact			

Risk Number	Current Risk Score	Target Risk Score	Description
6	3/2 Low/ Medium	2/2 Very Low/medium	Risk that <b>Members</b> don't have the <b>skills, capacity, experience</b> required to respond effectively to the changing agenda / Risk of a lack of an effective training and capacity building process in place / Risk of a lack of assessment of skills.
<p>Vulnerability: Members are being asked to make decisions against a backdrop of an increasingly complex local government agenda e.g. new legislation, new ways of working, commercial opportunities etc. This is at a time when a number of new Members have joined the Council.</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. All key decisions by Members are taken with the benefit of professional advice from Officers.	Adequate	Ongoing provision of professional advice	Management Team	Successful outcomes from decisions	Ongoing	Ongoing
2. The Council has a dedicated Member Training Panel of eight elected members supported by senior officers which reports to Cabinet as required. The principal role of the Panel is to develop the post-election training and induction programme every four years to ensure new and returned Councillors are kept fully up to date on important Local Government and ABC issues. Councillors elected mid-term in by-elections also receive all written material provided as part of the normal induction process, and some specialist training e.g. on planning matters is also offered.	Adequate but some minor adjustments possible.	Raise profile of Member Training Panel by formally constituting it within ABC Constitution and introducing an agreed programme of regular meetings and annual reports to review training issues.  Annual meeting report in May/June looking back over the preceding year which will be reported onto Cabinet	TM and KF	Report taken to Selection and Constitutional Review Committee December 2013 and formal terms of reference for panel incorporated into constitution.	Annually	Annual meeting of Panel and development of the 4-yearly Induction programme.
3. The effectiveness of induction training and wider ongoing individual member training needs are reviewed after the first year to establish whether Members consider they require particular further training etc.	Adequate but some minor adjustments possible.	Introduce an agreed programme of regular meetings and annual reports to review training issues (see 2 above)	TM and KF	Report to Member Training Panel - implement suggested improvements	Annually	Annual meeting of Panel and development of the 4-yearly Induction programme
4. ABC has a dedicated budget of £15K over the four year period to fund external training costs for members.	Adequate	Maintain current budget level	TM and KF	Adequate training provided from budget	Annually as part of budget setting process	Sept of each year

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
5. The most significant and high-profile potential risk in terms of Members lacking the necessary skills for decision-making arises in the field of town planning. In order to address this issue, ABC has a strict rule which requires all Councillors who sit on the Planning Committee (including substitutes) to have first undertaken specialist training on planning and probity matters.	Adequate	Continued, ongoing training to reflect changes in legislation and planning guidance.	TM & KF (and RA)	Number of successful planning appeals against decisions of the Planning Committee	Ongoing	N/A
6. ABC provides an IT allowance for every Councillor which supports the provision of good quality software to facilitate good communications and access to all relevant news and information services on the Internet.	Adequate	Ongoing provision of IT support.	TM & KF (and RN)	Provision of satisfactory service to Members	Annually as part of budget setting process	Sept of each year
7. Weekly electronic newsletters and media updates are provided to all Councillors which include links to enable Members to access relevant up-to-date material. (recent initiative)	Adequate	Maintain regular Members Update	TM & KF	Provision of satisfactory service to Members	After six months	N/A
8. Regular Officer briefings are held for all Councillors on a range of matters including major planning issues, ethical conduct, risk management procedures, major strategic projects etc.	Adequate	All Senior Manager to maintain briefings and updates as necessary	Management Team	Provision of satisfactory service to Members	Ongoing	N/A

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
9. All Service Heads hold regular Portfolio Holder briefings with their Portfolio Holder (and lead members where relevant) and Committee Chairmen to ensure he/she is up to date on all key issues relating to the Service/Committee.	Adequate	Continue regular briefings	Service Head & Management Team	Provision of satisfactory service to Members	Ongoing	N/A

**Management Action Plan**

**Risk 7 Business Planning**

**Risk Owner**

**John Bunnett**

Likelihood	6				
	5				
	4			7	
	3				
	2				
	1				
		1	2	3	4
		Impact			

Risk Number	Current Risk Score	Target Risk Score	Risk Description
7	4/3 Significant/ Severe	3/3 Low/Severe	The possibility of an ongoing lack of effective prioritisation of business planning from members and officers.
Vulnerability: A perception that business planning does not reflect a coherent direction for the work of the Council and its partners.			

Action/controls already in place	Adequacy of action/control to address risk	Current position (March 2014)	Responsibility for action	Critical success factors (outcome)	Review frequency	Key dates
<ul style="list-style-type: none"> <li>■ Updated business planning documents available publicly on the website</li> <li>■ Updates on Business Plan presented and discussed at Management Team when appropriate, alongside savings schedule from Finance</li> <li>■ Updating on the business planning represents a cornerstone of the Chief Executive's staff briefings, as well as other internal communications.</li> <li>■ Corporate Strategy set and appropriately reviewed when necessary</li> <li>■ Quarterly corporate performance report to members, Parish councils and residents (via website)</li> </ul>	<p style="text-align: center;">Good</p> <p style="text-align: center;">Adequate</p> <p style="text-align: center;">Good</p> <p style="text-align: center;">Good</p> <p style="text-align: center;">Good</p>	<p>Available on website</p> <p>Project Planning is ongoing for priority projects. With the council's new 'Focus' strategy agreed, a complementary performance management arrangement for use by Management team will be developed during 2014.</p> <p>Annual report on current achievement and future areas of focus being developed for April 2014, via report to Cabinet.</p> <p>Refreshed Corporate Strategy (Focus 2013-15) agreed in October 2013</p> <p>Town Centre Project Delivery Framework for 2014-16 agreed, alongside an Ashford Strategic Delivery Board to deliver priority projects (Big Six +)</p> <p>Ongoing. Most recent report to Cabinet was February 2014</p>	<p>Policy Team</p> <p>Policy Team</p> <p>John Bunnett / Policy Team / Communications</p> <p>Policy Team</p> <p>Policy Team</p>	<p>Service Planning documents</p> <p>Quarterly reporting of strategic information to Management Team</p> <p>Content of next staff briefings</p>	<p>Annually</p>	<p style="text-align: center;">All before next review [Milestones/deadlines]</p>

**Management Action Plan**

**Risk 8 Housing**

**Risk Owner**

**Tracey Kerly**

Likelihood	6				
	5				
	4				
	3			<b>8</b>	
	2				
	1				
		1	2	3	4
		Impact			

Risk Number	Current Risk Score	Target Risk Score	Description
8	3/3 Low/ Severe	3/3 Low/Severe	Risk of failing to manage the <u>housing landlord role and the demands for housing.</u>
<p>Vulnerability: The Council is a major landlord and has recently taken on a significant loan in order to gain complete control of the 'landlord account'. There are considerable demands on the housing waiting list and a requirement to meet the housing needs of an expanding population and an ageing demographic. The government's welfare reforms will have a number of impacts on the housing service. There are risks inherent in the delivery of the solutions to meet demand and maintain a good and effective housing service.</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
<p>Private Sector Leasing scheme still working to provide additional units for homeless, now extended to ABC lettings a focus on private sector homes for an alternative for waiting list applicants</p> <p>Ability to discharge our duty to Homeless applicants into the private sector as a result of the Localism bill likely to be agreed in the Autumn this year.</p> <p>Homeless prevention work continues with young single as part of the house project. Focus by the HOO's to prevent homelessness and negotiate with LL and family intervention, focus on supporting applicants in to work and training.</p> <p>Area management team monitors current tenant rent accounts and arrears on a F/N bases</p> <p>Communications strategy and plan in place to manage the welfare reform changes.</p> <p>Tenants newsletter already communicating the changes to tenants of the welfare reform implications.</p>	<p>Regular monitoring and included on monthly statics reported to CHAPS managers meeting.</p> <p>Biggest issue will be control of families migrating from other expensive areas such as London.</p> <p>Working as part of the corporate officers working group and to effectively engage with members through the mini PAG for welfare reform and the VS.</p>	<p>Team resources moved to support the ABC lettings scheme. The business plan is monitored to ensure we are meeting our criteria.</p> <p>Advice to applicants to be provided by the HOO's at time of taking homelessness applications, less pressure on stock for waiting list and transfer applicants</p> <p>Numbers of homeless monitored closely and reasons for homeless to ensure prevention work and resources targeted in correct areas.</p> <p>August 13 taken on 2 landlord liaison officers for 1 year fixed term to support the prevention of homelessness, due to growth in B&amp;B specifically for families.</p> <p>The impact of Welfare Reform has been well managed by the Housing Service with arrears levels falling."</p> <p>Structure of the Estate management team is reviewed regularly, and resources may need to be re-balanced from estate management to income control. Trainee post has been appointed to support the area managers. Modern apprentice is working in the</p>	<p>Sharon Williams</p> <p>Rebecca Wilcox Supported by the welfare reform group and the communications plan.</p>	<p>Taking on new lets each month</p> <p>Reduction in homeless use of Bed and Breakfast Policy to discharge duty into the private rented sector agreed at cabinet Jan 13</p> <p>99% rent collection levels.</p> <p>More available family units to let.</p> <p>Less single people seeking housing</p>	<p>Quarterly management meetings</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
<p>Tenancy Strategy now in place following the cabinet on the 13<sup>th</sup> Sept 1212this will address 5 year tenancies.</p>		<p>estate management team to assist in resilience.  Implications of welfare reform will effect collection rates, flexibility on DD dates to coincide with welfare payments, to be reviewed. 2 Welfare intervention officers have been appointed to support customers effected by welfare reform,</p> <p>Under occupation in tenancies is being reviewed and focussed communications targeted to those effected by the bedroom tax.</p> <p>Direct payment pilots being monitored closely to indentify the potential impacts and mitigate against loss of income</p> <p>[new actions/controls required to manage the risk down to its target score]</p> <p>Under occupation will be addressed as part of the 5 year renewal and larger properties will be released for waiting list applicants.</p> <p>Options to support those under occupying to take in Lodgers to occupy vacant bedroom space. Tenants targeted to Mutual Exchange to smaller homes, ME's have increased.</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
<p>HRA Business plan priorities addresses aging population, energy efficiency, adaptations, and environmental improvements. Resources within the HRA are reviewed and matched to areas of pressure. Business reviews are undertaken twice yearly with each CHAP's manager.</p> <p>Planned maintenance programme re-balanced as income levels change</p> <p>Control of the loans to manage the debt are shared between Finance and HRA and loans fixed for varying periods to maximise use of debt</p> <p>Stock holding authorities are now approaching the end of the second year since HRA financial reform. Ashford have reinforced the processes management of the council's housing stock of just over 5,000 properties</p>		<p>Targeted communications and regular communications. HRA BP modelling to take place Aug 14 to ensure assumptions and debt repayment are on target</p> <p>Increasing/improving sheltered housing schemes, opportunity to manage the needs of the aging population and encouraging downsizing.</p> <p>More energy efficient homes to gives tenants more affordability.</p> <p>4 year maintenance plan issued and may require communicating changes should income levels drop significantly.</p> <p>Regular review with the Head of accountancy.</p> <p>Regular quarterly meetings of officers to update and review the financial projections, an annual paper to the cabinet updating them on any changes, particularly due to external factors such as changes to Government policies and changes in inflation. In addition the council also meets the newly</p>	<p>Bob Smart/Ben Lockwood</p> <p>Chris Tillin</p> <p>Tracey Kerly</p>	<p>older tenants taking up cash incentive to move to smaller homes.</p> <p>Some changes already as a result of interest rate movements</p>	<p>Customer satisfaction rates in the high 90's for responsive repairs, planned maintenance and general satisfaction</p> <p>At least quarterly</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
		introduced CIPFA Voluntary Code for Self-Financed Housing Revenue Account.				

**Management Action Plan**

**Risk 9 Infrastructure**

**Risk Owner**

**Richard Alderton**

Likelihood	6			9	
	5				
	4				
	3				
	2				
	1				
		1	2	3	4
	Impact				

Risk Number	Current Risk Score	Target Risk Score	Description
9	6/3 Very High/ Severe	5/3 High/Severe	Risk of not having the right funding at the right time for the right <b>infrastructure</b> / Risk of over focussing on physical infrastructure at cost of social infrastructure.
Vulnerability: The Council is planning the timely implementation of infrastructure in a volatile funding context / difficult economic climate.			

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
Monitoring of use of s106 to secure contributions to deliver essential infrastructure	Adequate	This annual process will be widened to include an assessment of the strategic commitments that exist to repay transport infrastructure at J9/ 10 of the M20 through the Regional Infrastructure Fund and South of Ashford Transport Study	Lois Jarrett	Clear picture of level of commitments and impact on other requirements	Annual to Cabinet – June cycle	
Review of transition from s106 funding to Community Infrastructure Levy/ s106 and the implications	Required	Further reports to Planning Task Group will continue to debate on this issue, in parallel with the wider debate on Local Plan review timetable	Simon Cole	Agreed position and way forward based on good understanding of the issues	6 months	
Preparation of infrastructure plan and process for prioritising provision	Required	Underway – to be discussed with Planning Task Group and partner agencies	Richard Alderton/ Simon Cole	Explicit, agreed plan to enable clear decision making and spend of CIL	Late 2013	
Preparation of draft CIL 'charging schedule' as a basis for consultation, submission and independent examination.	Required	Underway - to be discussed with Planning Task Group and then formally agreed by the Council – linked to timing of the Core Strategy review	Simon Cole	Robust basis for rolling out CIL and collecting future contributions	Ongoing	
Work with private sector and other agencies to seek to secure improved motorway access at junction 10A	Adequate	Preliminary LEP funding secured and work continues with partners to fully test the interim scheme in the context of major development proposed at Sevington. KCC as highway authority will be scheme promoter with a planning application expected in late 2014. Pressure will continue to be applied to seek the full scheme upgrade in due course as the interim scheme will approach capacity in the late 2020's.	Simon Cole/ Richard Alderton	Interim scheme fully tested and means of delivery secured so that LEP funding can be drawn down and the scheme delivered.	Ongoing	

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
Work with East Kent districts and the County Council to promote strategic infrastructure investment needed and maximise funding from the South East LEP and other sources	Adequate	Working with the East Kent Regeneration Board to make the strategic case for sub-regional investment; feeding into the emerging Strategic Economic Plan for the LEP; and identifying priority projects	John Bunnett	Priority status given to investments in the Borough and success in securing grant funding / reflection of priorities in economic strategy for the region	Ongoing	[Milestones/deadlines] [deadlines/milestones]

**Agenda Item No:** 9  
**Report To: Audit** Audit Committee  
**Date:** 18 March 2014  
**Report Title:** Internal Audit Operational Plan 2014/15  
**Report Author:** Brian Parsons - Head of Audit Partnership



<b>Summary:</b>	The report sets out the one-year Internal Audit operational plan for 2013/14 and asks that the Audit Committee review and approve the Plan.
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**Key Decision:** NO

**Affected Wards:** N/A

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

**Review and approve the contents of the one-year operational Internal Audit plan (shown at Appendix 1)**

**Policy Overview:** Not applicable

**Financial Implications:** None directly

**Risk Assessment** Yes

**Equalities Impact Assessment** No

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

**Background Papers:** None

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

## **Report Title:** Internal Audit Operational Plan 2014/15

### **Purpose of the Report**

1. The report sets out (at Appendix 1) the one-year operational Internal Audit plan for the financial year 2014/15 and asks that the Audit Committee review and approve the plan.
2. The purpose of the report is to meet the requirements of the Public Sector Internal Audit Standards in relation to audit planning; and to help to discharge the Section 151 officer's responsibility for financial control; and to inform Management / Members of the planned audit work to be undertaken in 2014/15.

### **Issue to be Decided**

3. A risk based internal audit operational plan has been produced to meet the requirements of the Accounts and Audit Regulations 2011 in accordance with the Public Sector Internal Audit Standards.
4. The Audit Committee is asked to review and approve the Plan.

### **Background**

5. The Accounts and Audit Regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its system of internal control in accordance with the proper practices in relation to internal control'. The 'proper practices' for internal audit are defined as being those which are set out in the Public Sector Internal Audit Standards, which were set for local government by CIPFA in collaboration with the Chartered Institute of Internal Auditors.
6. The Plan has been prepared in accordance with the standards set out within the PSIAS and has included the following;
  - Desktop review of strategic documents and plans
  - Interviews with senior officers
  - Creation and risk assessment of the 'audit universe'
7. The Standards require the Head of Internal Audit to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisations goals. (PSIAS 2010 & 2010 A.1)
8. The Head of Internal Audit is required to review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls.

9. The Standards state that the Head of Internal Audit must communicate the internal audit plans to senior management and the 'board' (the Audit Committee) for review and approval.

## **Preparation of the operational plan**

10. The preparation of the plan gave specific consideration to:
- the arrangements for the prevention of fraud and corruption
  - corporate governance
  - compliance with legislation/changes in legislation
  - compliance with codes of conduct
  - compliance with constitutional rules (e.g. Financial Rules, Contract Rules)
  - the 'national agenda'
  - coordinating work, or at least as much as is practical, with the external auditors to ensure that best use is made of audit resources, and:
  - Coordinating work, where appropriate and efficient, with the work carried out by Mid Kent Audit for its three other local authority clients.
11. The plan seeks to:
- provide sufficient coverage of the control environment to allow conclusions to be drawn on its effectiveness and to allow the Head of Audit Partnership to 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.
  - give adequate coverage to allow the external auditors to place reliance on the work of Internal Audit
  - add value and improve the organisation's operations
  - Help the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **The Plan**

12. The plan (Appendix 1) shows the projected internal audit work for 2014/15.
13. The plan currently shows a total of 24 audit projects, which is based on the available auditor resources.
14. The approach to planning has been standardised across the four partnership sites and has included consideration of strategic documents and plans, interviews with senior managers, review of the strategic risk register and the creation and risk assessment of the 'audit universe'. The risk assessment has involved considering audit subjects in terms of materiality, inherent risk, control risk and taking into account changes to systems, revised management arrangements, and past history.
15. The actual time spent on the audit depends on the complexity of the subject, the scope of the work, the quality of the systems and documents that will be examined, the helpfulness of the staff that we need to work with and the issues that arise during the audit. In general terms it takes longer to audit a subject where poor controls are in place. The time allocations shown in the



plan are indicative and will be subject to adjustment as necessary when individual engagement briefs are prepared.

16. The resources available to provide the Internal Audit service to Ashford Borough Council primarily consist of two full-time operational auditors, supported operationally by an Audit Manager for two days of the week, and strategically by the Head of Audit Partnership.
17. Each auditor is expected to complete up to twelve projects each year. The Audit Manager works closely with the auditors to ensure that productive time is maximised.
18. The Plan is flexible in the sense that a new audit topic can be added in the future, subject to the deletion of one of the planned audits.
19. It is anticipated that greater use of auditor rotation across the four partnership sites will occur in the forthcoming year where it is efficient to do so. Therefore it is anticipated that one auditor may be allocated to undertake similar reviews across several Council clients with a view to gaining efficiencies in time spent on the review area.
20. The Internal Audit Plan for Ashford is sovereign. However, where possible it has been aligned with the Audit Plans for Maidstone, Swale and Tunbridge Wells to facilitate the sharing of audit work programmes and to allow the movement of auditors between sites.
21. The plan sets out the audit work that will be carried out in relation to the key financial systems; Council Tax and Council Tax Support, Business Rates, Creditor Payments, Rents and Rent Arrears. The financial materiality of these systems largely dictates that the systems need to be reviewed annually.
22. The plan goes on to set out the other service areas that will be subject to an internal audit; some of which have little or no financial risk but are subject to regulatory, legal, technological or reputation risk. These subjects may be reviewed annually or biennially or triennially depending on their risk profile.
23. The new Head of Audit Partnership has had only limited opportunity to be involved in the planning process. If he considers that any significant changes need to be made to the 2014/15 plan, he will report accordingly to the Committee.

### **Reporting the work**

24. A written report is provided to the respective Head of Service on completion of each audit project. The Internal Audit report sets out the findings, conclusions and recommendations arising from the audit. A copy of every report is provided to the Deputy Chief Executive (Section 151 Officer) and the Chief Executive.
25. Heads of Service are required to complete an action plan setting out how they will address the recommendations. The action plan is assessed for adequacy by the Audit Manager.

26. A follow-up is carried out approximately six months after the original report was issued to establish whether the proposed action has been implemented in practice. The results of the follow-up are reported in writing to the respective Head of Service, with copies to the Deputy Chief Executive and the Chief Executive.
27. If the initial report identifies that only minimal or limited controls are in place and the Head of Service fails to respond adequately or if it is found that the agreed action has not been taken at the time of the follow-up, the matter will be reported to the next meeting of the Audit Committee. The Head of Service will be invited to attend the meeting to explain the action that will be taken to address the control weaknesses.
28. The outcomes from Internal Audit reviews are reported to the Audit Committee twice a year. An Interim Report is prepared to show the results of work in the first half of the financial year; this is reported to the Committee in December. The Annual Internal Audit Report shows the work for the complete financial year and is reported to the Committee in June to support the Annual Governance Statement. The annual report contains the opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

## **Risk Assessment**

29. The Internal Audit operational plan sets out a series of projects for 2014/15 to examine the adequacy of the controls that the individual Head of Service has put in place to manage a very broad range of risks to the delivery of strategic and operational objectives.

## **Equalities Impact Assessment**

30. None

## **Other Options Considered**

31. There is a requirement under the Public Sector Internal Audit Standards that the Head of Internal Audit should prepare a risk-based plan to determine the priorities of the internal audit activity. There are no alternative options.

## **Consultation**

32. The Internal Audit Plan has been prepared in consultation with Heads of Service to inform the planning process.
33. There is an ongoing process of dialogue with Heads of Service in relation to Internal Audit work including meetings between the Audit Manager and the respective Head of Service to discuss the plan of audit work relative to their area of responsibility. These discussions inevitably lead to amendments to the plan.
34. The draft plan has been discussed with the Deputy Chief Executive (as s151 Officer) and circulated to Management Team. Further feedback is being

sought on some of the proposed areas before finalising the plan. Any proposed changes will be reported to the Committee meeting.

35. Before any actual audit work commences, the respective Head of Service is consulted on the timing, scope and objectives of the audit project.

## **Implications Assessment**

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

## **Handling**

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

## **Conclusion**

38. The Accounts and Audit regulations 2011 place a statutory duty on the Council to 'undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the proper practices in relation to internal control'.
39. The Head of Audit Partnership is satisfied that completion of the attached operational audit plan for 2014/15 will meet the statutory duty and will allow the risks to the achievement of the Council's operational and strategic objectives to be reviewed.

## **Portfolio Holder's Views**

40.

41.

**Contact:** Brian Parsons 01233 330442

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INTERNAL AUDIT PLAN 2014/15

No.	Subject	Scope	Assurance Category	Estimated. Audit Days
1	<b>Council Tax</b>	System & transactions	Key Financial Assurance	15
2	<b>Income Management (new system)</b>	Post implementation review	Key Financial Assurance	16
3	<b>Housing Benefits</b>	System & transactions	Key Financial Assurance	18
4	<b>Business Rates</b>	Systems & transactions	Key Financial assurance	15
5	<b>National Fraud Initiative</b>	The Audit Commission data matching exercise - Internal Audit facilitate the process	Governance/Counter Fraud	15
6	<b>Governance &amp; Ethics</b>	Compliance	Governance/Counter Fraud	15
7	<b>Asset Property Management /Investment Properties</b>	Asset Management Plan	Corporate Priority Assurance	20

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8	<b>Creditors</b>	Operations	Corporate Priority Assurance	12
9	<b>Farrow Court</b>	Project Group representative reviewing - Governance framework	Corporate Priority Assurance	15
10	<b>Housing Maintenance Contracts</b>	Systems & transactions	Operations Assurance	15
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13	<b>Cemetery</b>	System & transactions	Operations Assurance	12
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INTERNAL AUDIT PLAN 2014/15

18	<b>Greenov</b>	First Level Controller/Audit sign off of funding claims	Operations assurance	15
19	<b>Economic Development –Portas /Markets /Funding</b>	Systems & transactions	Operations Assurance	15
20	<b>ICT – Disaster Recovery</b>	Operations	Operations Assurance	15
21	<b>GIS</b>	Systems/Compliance review	Operations Assurance	15
22	<b>Housing Rents</b>	Systems & Transactions	Key Financial Assurance	15
23	<b>Strategic Risk *</b>	Governance	Governance Assurance	15
24	<b>Elections</b>	System & transactions/Claims	Operations Assurance	12

\*Strategic Risk Assurance – Specific Risk to be selected at a later stage.

**Agenda Item No:** 10

**Report To:** Audit Committee

**Date:** 18 March 2014

**Report Title:** Internal Audit – External Quality Assessment against Public Sector Internal Audit Standards

**Report Author:** Brian Parsons – Head of Audit Partnership



**Summary:** The report sets out the results of the External Quality Assessment of conformance by Internal Audit against the Public Sector Internal Audit Standards and the responses from the Head of Audit Partnership to the recommendations made by the assessors.

The report provides assurance to the Committee that Internal Audit is already meeting the vast majority of the Standards and that full conformance can be achieved.

**Key Decision:** No

**Affected Wards:** N/A

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

**Note the outcomes of the External Quality Assessment and the action that will be taken to ensure full conformance.**

**Policy Overview:** N/A

**Financial Implications:** The External Quality Assessment cost £7,000. The cost was shared among the four partner Councils and the cost for each was therefore £1,750. The cost has been met from existing budgets.

**Risk Assessment** Yes

**Equalities Impact Assessment** No

**Other Material Implications:** None

**Background Papers:** Report to Audit Committee dated 5 March 2013 – Public Sector Internal Audit Standards. Report to Audit Committee dated 26 September 2013 – Internal Audit Charter

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

**Report Title: Internal Audit – External Quality Assessment against Public Sector Internal Audit Standards**

**Purpose of the Report**

1. The report sets out the results of the External Quality Assessment of conformance by Internal Audit against the Public Sector Internal Audit Standards and the responses by the Head of Audit Partnership to the recommendations made by the assessors.
2. The report provides assurance to the Committee that Internal Audit is already meeting the vast majority of the Standards and that full conformance can be achieved.

**Issue to be Decided**

3. The Committee is asked to note the outcomes of the External Quality Assessment and the action that will be taken to ensure full conformance.

**Background**

4. The Public Sector Internal Audit Standards (PSIAS) were introduced on 1 April 2013 and set the standard for the way that internal audit is delivered in local government and in the public sector generally.
5. The basis for the Standards is the Institute of Internal Audit's (IIA's) International Professional Practice Framework which includes the Definition of Internal Auditing, Code of Ethics and International Standards. The Public Sector element adds a further dimension and provides clarification on how the international standards should be applied to the public sector.
6. The Standards specify that external quality assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation.
7. An external assessment of conformance with the standards covers the same elements of the internal audit function, whether the internal audit service operates in the finance sector, the public sector or within a FTSE top 100 company.
8. It was proposed that Mid Kent Audit would seek an early assessment and the Audit Committee was consulted accordingly.
9. An assessment of Mid Kent Audit was commissioned from the Chartered Institute of Internal Auditors (IIA). The assessment was carried out in January 2014.



10. The assessment was a 'validated self-assessment' based on a checklist completed by Internal Audit management. An evidence file was prepared to support the self assessment.
11. The team from the CIIA carried out their work on-site and had access to all Internal Audit files and records, which are held within the electronic audit management system, Team Mate. The team also conducted a series of interviews, which included the relevant senior officer from each of the four Councils, a Head of Service who was able to provide a 'client' view as the receiver of internal audit services, two of the four Audit Committee Chairmen, the External Auditor (the Director/Assurance for Grant Thornton) as well as the Head of Audit Partnership and the majority of the audit partnership team.
12. The assessment process was intensive, while also being very positive and participative. The assessment team was able to provide examples of good practice from elsewhere and to make suggestions for service improvements.
13. The External Quality Assessment (EQA) of Mid Kent Audit was the first EQA by the Institute of any local authority internal audit service in the country.
14. The report relating to the assessment was issued on 22 January 2014 and is attached at Appendix 1.
15. The report is very positive and confirms that Mid Kent Audit conforms to 50 of the 56 principles and partially conforms to the remaining 6. There were no 'fails'. This is a considerable achievement in the context of the breadth of the PSIAS and provides a high level of assurance to the Committee that the Council receives a very good quality audit service from Mid Kent Audit.
16. A professional, independent and objective internal audit service is one of the key elements of good governance. Conformance with the Standards provides evidence that Mid Kent Audit matches this criterion. This means that Members, officers and the external auditors can place reliance on the work of Internal Audit and that Internal Audit is able to make a significant contribution to the governance of the Authority.
17. There are six recommendations within the EQA report. Responses to the recommendations have been prepared by the incoming Head of Audit Partnership and are shown in the report. The actions will be developed during 2014/15.
18. It is intended that, on completion of the necessary actions, the IIA assessment team will be invited back to reassess the position and subject to the few partial conformances being addressed, will be able to verify that 'Mid Kent Audit conforms to the IIA's professional standards' and PSIAS. It will then be possible for Internal Audit to make this statement in its reports and promotional literature. This will be particularly helpful if Mid Kent Audit is tasked to seek external clients, as it will be possible to use the assessment to evidence the quality of the audit service.

## **Risk Assessment**

19. Internal Audit needs to be able to demonstrate its quality in order to provide the necessary assurances to management and Members. The EQA provides evidence that this risk has been managed.

## **Equalities Impact Assessment**

20. There are no specific equalities implications.

## **Other Options Considered**

21. There are no relevant other options.

## **Consultation**

22. The Audit Committee was consulted prior to the External Quality Assessment being commissioned.
23. The Deputy Chief Executive and the Chairman of the Audit Committee were invited to give their views as part of the External Quality Assessment.

## **Conclusion**

24. The results of the EQA provide evidence of the effectiveness and quality of the internal audit service (Mid Kent Audit).
25. The implementation of the responses to the EQA recommendations will further improve the quality of the audit service.

## **Portfolio Holder's Views**

26.

27.

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Chartered Institute of  
Internal Auditors

**External Quality Assessment Report for  
the Mid-Kent Audit Partnership**

Prepared by Chris Baker  
on behalf of CIIA's Quality Services,  
22<sup>nd</sup> January 2014.



# Our Opinion

The Institute of Internal Audit's (IIA's) International Professional Practice Framework (IPPF) includes the Definition of Internal Auditing, Code of Ethics and *International Standards*. There are 56 basic principles to achieve with more than 150 points of recommended practice. The IPPF also form the basis of the recent Public Sector Internal Audit Standards (PSIAS) applicable to local government, which we have used as the basis for our review.

It is our view that Mid-Kent Audit Partnership conforms to 50 of these principles and the specific interpretations included in the PSIAS. This is an important achievement given the breadth of the PSIAS and the relative pace of change within the sector. The results are consistent with other reviews we have performed illustrating a reasonable baseline position but with scope for improvement.

To achieve full conformance to the Standards and the PSIAS internal audit needs to graduate to greater focus upon risk. In practice this means ensuring audit plans have more emphasis upon strategic risks, audit engagements introduce a focus upon critical success factors and associated risks and the Annual Report and Opinions provides an evaluation of the overall effectiveness of risk management. However, we see this as a progression of the good foundations that have been established and an achievable goal based upon the strong commitment to the Partnership by every member of the consortia.

Provided the Audit Partnership can show the partial conformances have been developed to general conformances this will enable the team to say it 'conforms to the IIA's professional standards' in its reports and promotional literature.



Chartered Institute of Internal Auditors



Public Sector Internal Audit Standards  
Applying the IIA International Standards to the UK Public Sector

Summary of Mid-Kent Audit Partnership's Conformance	Standards	Does not Conform	Partially Conforms	Generally Conforms	Total
Definition and Code of Ethics	Rules of conduct	0	0	5	5
Purpose	1000 - 1130	0	1	6	7
People	1200 - 1230	0	0	4	4
Performance	1300 - 1322	0	1	6	7
Planning	2000 - 2130	0	3	9	12
Process	2200 - 2600	0	1	20	21
<b>Total</b>		0	6	50	56

**GC Generally Conforms** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects.

# Achievements of the Audit Partnership



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1. The transition to a single employer structure has been managed with care and sensitivity to achieve continuity.
2. An assurance service that has the freedom to do its job – there are no restriction in terms of scope.
3. Leadership and professionalism - the team is respected and valued by audit committee members and senior executives.
4. Well qualified staff with a good mix of skills – including succession planning.
5. Training and development of staff.
6. Delivery and development of risk management.
7. A structured and consistently applied audit process as set out in a procedures manual.
8. Effective use of TeamMate to enhance efficiency and effectiveness.
9. Stakeholders who believe internal auditors are professional in their approach.
10. A monitoring process for the follow-up of audit recommendations.
11. A broad range of quality measures and indicators to monitor performance.
12. Overall commitment to development and continuous improvement.

## Stakeholder feedback



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- The achievements of the Audit Partnership have been reinforced during discussions with audit committee members and senior executives. There is a great deal of respect and appreciation for the retiring Head of Internal Audit and unanimous support for the development of the consortia under new leadership.
- Furthermore, it is widely acknowledged that bringing the team together within a single employer arrangement will enable greater flexibility and variety in internal audit delivery, establish a career path for team members and that in time this will open commercial opportunities.
- At the same time the change in structure and the appointment of a new Head of Internal Audit raises expectations. Most stakeholders are of the opinion that the public sector will continue to operate under severe financial constraints and that further change is an inevitable consequence. Within this environment there is a desire to have an internal audit activity that supports the challenges ahead through trusted advice and guidance.
- This means internal audit must operate at a strategic level supporting the further development of risk management and providing assurance around the things that matter – in other words that the key objectives, projects and initiatives are being delivered. To enable this to happen internal audit will need to devote more time understanding the concerns and assurance needs of its stakeholders through informal as well formal mechanisms.
- As a consequence we have prioritised our ideas and suggestions accordingly.

# Supporting continuous improvement



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We set out some ideas for the [Partnership Board and Audit Committee members](#) related to Governance and Risk Management

## **Risk management**

The management of risk has been firmly established at a strategic level and we feel this provides the platform to fully embed a risk culture. We therefore encourage Audit Committees and Senior Executives to reflect upon how risk management can be applied in operational areas.

As this will have resource implications we suggest it may be done in key activities which could include project management, procurement, contract management, fraud prevention etc.

In doing so we also recommend that some time be devoted to thinking about how risk appetite is defined – the limits, boundaries and expectations around strategic and operational risks that will further indicate risks are under control.

## ***Response***

*HAP will raise this matter with the Audit Board and onwards to the Audit Committees.  
IA will invite each member of the partnership to formulate a risk appetite statement appropriate to their strategic aims and support them in its creation.*

# To achieve full conformance to the IIA Standards



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Internal Auditors

We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance. (1/3)

## **Standard 2120 Risk Management**

Internal audit has had a significant impact upon the implementation and improvement of risk management. Strategic level risk management is functioning well across the Partnership.

As organisations develop the maturity of their risk management the Standards and the PSIAS require internal audit to provide an independent and objective evaluation of risk processes. Typically, this is done through periodic review of the methodology against best practice and annual assurance that processes are applied effectively and that risks reports are reliable. This is an important next step for internal audit whose opinions upon risk management should be included in Annual Reports as a major contribution to Governance Statements. *(There is a specific requirement in the PSIAS that the risk-based plan must take into account the requirement to produce an annual internal audit opinion).*

While internal audit is capable of undertaking this role their involvement in facilitation means they are close to the process. As a result we would further advise that an external advisor be approached once every five years to give a view on the development of risk management. This could be done on a peer review basis or through a partner organisation such as Zurich insurance.

**Response:** *HAP will incorporate a view on the effectiveness of the organisation's risk management in IA's 2014/15 Annual Report and Head of Audit Opinion and ensure that appropriate work to support that view is incorporated into audit plans. The question of external review is a matter for the authorities to determine, but IA will undertake research and recommend specific further action where beneficial.*



# To achieve full conformance to the IIA Standards



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Internal Auditors

We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance (2/3).

## **Standard 2050 Coordination**

Effective coordination of internal audit with other internal and external providers of assurance is an important feature of the Standards. The aim is to avoid overlaps and gaps in assurance so that Councils in the Partnership obtain value for money from anyone who has an audit role. (*PSIAS - The chief audit executive must include in the risk-based plan the approach to using other sources of assurance and any work required to place reliance upon those other sources.*)

The strategic risk registers provide the basis to achieve this coordination and we recommend that internal audit should work with senior executives to map who will provide assurance against the high priority/key risks. This should include operational managers at the point of service delivery, managers of support functions, internal audit and external audit to create a comprehensive assurance map based on the 3 lines of defence model.

**Response:** *The 2014/15 audit plan will aim to show appropriate links to the strategic risk registers of the authorities. During 2014/15 IA will work with officers to consider sources of assurance across the authorities' key strategic risks and present this to Audit Committees as an assurance map.*

## **Standard 2010 Planning**

To achieve full conformance with the Standards and PSIAS internal audit needs to adopt a fully risk based approach. This not only involves addressing the points on Standard 2130 but also moving to a risk based approach to planning that links audits to the high priority risks included the strategic risks registers. Working towards an assurance map will enable this to occur but for 2014/15 we specifically recommend internal audit plans for each Council in the Partnership should include a selection of audits aligned to strategic risks as a starting point while retaining a selection of reviews from the current audit universe.

**Response:** *As noted above, during 2014/15 IA will develop an assurance map to demonstrate clear links to the strategic risk registers of each authority. However, as an interim measure, the 2014/15 plans will include an analysis of the current key risks and incorporate and clearly flag a selection of the 2014/15 audits as providing direct assurance against those risks.*

# To achieve full conformance to the IIA Standards



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We set our recommendations to enable the Audit Partnership to fully conform to specific IIA Standards in order of importance (3/3).

## **Standard 1000 Purpose, Authority, and Responsibility**

In our experience internal audit charters spell out responsibilities in full (as required by Standard 1000 and PSIAS) to ensure they are tailored to the organisation and there is complete clarity upon the range of services to be performed. In the case of Mid-Kent we suggest this needs to include as concisely as possible the role internal audit has in relation to facilitating risk management and involvement in major projects.

**Response:** *HAP will review the internal audit charter during 2014/15 as part of its continuing development. This will include seeking to establish and document the role of IA in facilitating risk management and assurance on major projects.*

## **Standards 1310 Requirements of the Quality Assurance & Improvement Programmes**

It is clear from a detailed review of quality measures that the Audit Partnership has committed to a full range of external and internal quality assessments. Quite simply the Standards require the preparation of a schedule or timetable for the future programme to help senior executives and the audit committee understand when quality reports will be received.

**Response:** *During 2014/15 HAP will develop an appropriate schedule for future quality monitoring and seek to incorporate the schedule, and progress against its targets, within standard Audit Committee reporting.*

## **Standard 2210 Engagement Objectives**

When setting objectives for audit engagements we recommend that assurance be centred upon the criteria for success for that subject area and the management of risks that ensure these criteria are achieved. This may require separate discussions/workshops upon the nature of the criteria and risks but doing so will ensure a fully risk based approach.

**Response:** *During 2014/15 IA will review the objectives setting stage of the audit procedures manual to ensure that audits begin with an appropriate examination of risk and that the conclusions of that examination drive the nature and extent of the audit.*

# Supporting continuous improvement



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We set out some ideas for the Audit Partnership to enhance their overall effectiveness:

## **Internal Audit Functional Plan**

Internal Audit should develop a 2-3 year functional plan that provides a clear view to all stakeholders how the service is going to continue to develop. The plan should include elements on service delivery (assurance mapping, risk management), resourcing, methodology, risk assessment and quality assurance components. It should provide a reference point to assess the continued success of the function in terms of delivering its objectives as defined in the IA Charter. This plan should be presented, approved and delivery monitored by the Audit Committee.

**Response:** *The incoming HAP will lead on creating a 3 year strategic plan for the service which will be presented to Audit Committees (after appropriate consultation with officers) in 2015.*

## **Resourcing of IA**

Given IA's participation in the RM process and reference points from other EQA reviews the level of IA resource appears reasonable for a developing consortium of this size and ambition. However, we feel there is a skills gap in terms of IT auditing that could perhaps be filled through some form of co-sourcing or in due course the appointment of a senior auditor with experience in that area. In this regard it is better to look to quality rather than quantity to maintain effectiveness and to minimise supervision time. (PSIAS - *The risk-based plan must explain how internal audit's resource requirements have been assessed*).

**Response:** *The current and future resource needs of the service will be considered as part of the 3 year plan noted above.*

## **Resource Management**

We note audit engagements are consistently exceeding their time allocations (9 of 14 within our review sample). We suggest a more detailed review of why this might be happening and consideration of appropriate corrective action.

**Response:** *The incoming HAP will reflect on and continue the ongoing review of engagement completion, which has already led to the time recording system becoming universal across the team. Future action, which may include performance indicators or ongoing monitoring, will be considered where appropriate.*

# Approach



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**We used a variety of methods to form our opinion, including:**

- Review of IA's self-assessment against the IPPF.
- Detailed examination of internal audit documentation and engagement files.
- Face to face discussions and telephone interviews with audit committee members and senior executives across the Partnership (a total of 8 shown in table below).
- Face to face discussions with all members of the Internal Audit service.
- Benchmarking IA practice against IIA practice advisories, practice guides, global surveys, UK and Ireland guidance and case studies.
- Comparison to other organisations who have received an EQA.

## Participants

Name	Title	Type
Paul Naylor	Deputy Chief Executive - Ashford	Telephone discussion
David Edwards	Director of Shared & Environmental Services - Maidstone	Face to face meeting
Paul Riley	Head of Finance & Resources - Maidstone	Face to face meeting
Paul Clokie	Audit Committee Chair - Ashford	Face to face meeting
Lee Coyer	Head of Finance & Governance – Tunbridge Wells	Telephone discussion
Rodd Nelson-Gracie	Audit Committee Chair - Maidstone	Face to face meeting
Mark Radford	Director of Corporate Services - Swale	Face to face meeting
Andy Mack	External Auditor – Grant Thornton	Telephone discussion

**Agenda Item No:** 11  
**Report To:** Audit Committee  
**Date:** 18 March 2014  
**Report Title:** Internal Audit – External Audit Protocol  
**Report Author:** Brian Parsons – Head of Audit Partnership



<b>Summary:</b>	A protocol has been developed in order to set out the key principles and procedures underpinning the working relationship between Mid Kent Audit and the Council's external auditors, Grant Thornton. The protocol is attached at appendix 1.
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**Key Decision:** No

**Affected Wards:** N/A

**Recommendations:** **The Audit Committee is asked to:-**  
Note the protocol between Internal Audit and External Audit.

**Policy Overview:** N/A

**Financial Implications:** None

**Risk Assessment** No

**Equalities Impact Assessment** No

**Other Material Implications:** None

**Background Papers:** None

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

## **Report Title: Internal Audit – External Audit Protocol**

### **Purpose of the Report**

1. The report and more specifically Appendix 1, sets out a protocol to underpin the working relationship between Mid Kent Audit and Grant Thornton.
2. The protocol exists to establish a framework for coordination, cooperation and exchange of information. The protocol has been reported to the Audit Committee to provide assurance and confirm that, although internal audit and external audit have different roles, both assurance providers work together where possible and when appropriate.

### **Issue to be Decided**

3. The Audit Committee is asked to note the attached protocol which sets out the working relationship between Mid Kent Audit and Grant Thornton.

### **Background**

4. It is important that the respective and different roles of Internal Audit and External Audit are clear but there are opportunities for both parties to share and discuss audit plans, update and review issues identified through on-going or planned work, review progress and exchange key findings. This helps to ensure that best use is made of overall audit resources.
5. The working arrangements between Internal and External Audit have now been set out in a protocol which should provide assurance to the Audit Committee that both providers work together appropriately. The protocol sets out principles for working together, rather than detailed procedures.
6. The protocol is shown at Appendix 1.

### **Risk Assessment**

7. Not applicable

### **Equalities Impact Assessment**

8. Not applicable

### **Other Options Considered**

9. Not applicable

## **Consultation**

10. The protocol has been discussed and agreed by the Head of Audit Partnership (Mid Kent Audit) and the Audit Manager Ashford (Grant Thornton).

## **Implications Assessment**

11. Not applicable

## **Handling**

12. Not applicable

## **Conclusion**

13. The existence of a protocol between Internal and External Audit helps to ensure that there is clarity in terms of the respective roles and sets out the opportunity to coordinate, cooperate and exchange information.
14. A protocol has been created to set out the arrangements between Mid Kent Audit and Grant Thornton.

**Contact:** Brian Parsons – Head of Audit Partnership: 01233 330442

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# Internal Audit – External Audit Protocol for Mid Kent Audit

**Year ended 31 March 2014 and 2015**

February 2014

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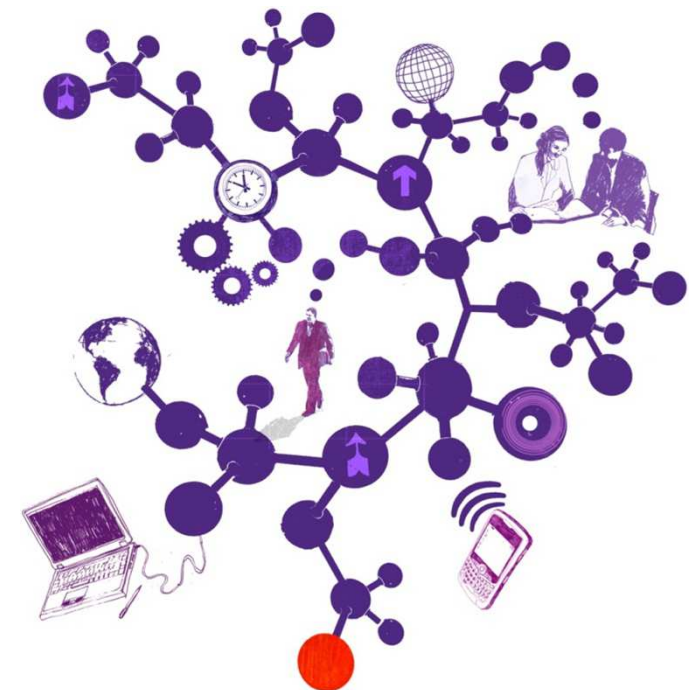
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# Introduction and Principles

## **Introduction**

The protocol sets out the key principles and procedures underpinning the working relationship with Mid Kent Audit (covering Ashford, Maidstone, Swale and Tunbridge Wells) and the Council's external auditors, Grant Thornton. It establishes a framework for coordination, cooperation and exchange of information.

The protocol is based on the understanding of International Standards on Auditing (ISA), in particular ISA 315 (Identifying and assessing risks of material misstatement through understanding the entity and its environment) and ISA 610 (Using the work of internal auditors).

## **Principles**

ISA 315 states the internal audit function is likely to be relevant to the audit of the financial statements if the nature of their work relates to the entity's financial reporting. ISA 610 recognises external audit and internal audit have different objectives and priorities. The external auditor has the sole responsibility for the opinion on the financial statements and using the work of internal audit does not impact on this responsibility in any way. Therefore the external auditor needs to consider how and whether it is appropriate to place reliance on the work of internal audit.

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# Procedures

## **Together internal audit and Grant Thornton will:**

- Meet on a quarterly basis to share and discuss audit plans, update and review issues identified through on-going or planned work, review progress and exchange key findings. Such discussions will inform the Grant Thornton audit approach.
- Liaise to identify and exchange knowledge of emerging or identified key risk areas.
- Use quarterly meetings to ensure reporting lines to the Audit Committee are clear and information provided is clear and timely.

## **Internal audit will:**

- Provide details to Grant Thornton and of fraud above £10,000 and details of any identified or potential cases of corruption.
- Provide Grant Thornton with appropriate access to working papers and relevant documents, and with electronic access to published internal audit reports on key financial systems which may impact upon on the audit approach.
- Share its approach to systems audit work and associated documentation with Grant Thornton.

## **Grant Thornton will:**

- Advise internal audit which of the financial systems we consider are key to the production on the financial statements.
- Share testing strategies with internal audit on a timely basis to maximise the scope to ensure effective and efficient use of resources for both parties.
- Share details of our approach as requested.

## **Way forward:**

This protocol has been discussed and agreed with Brian Parsons, Mid Kent Audit and Lisa Robertson, on behalf of Grant Thornton. The protocol will be reviewed annually and updated to reflect changes to internal audit standards and the ISAs.



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**Agenda Item No:** 12  
**Report To:** AUDIT COMMITTEE  
**Date:** 18/03/2014  
**Report Title:** **Annual Governance Statement – progress on remedying exceptions for 2013-14**  
**Report Author:** Nicholas Clayton, Policy and Performance Officer



**Summary:** This short paper follows on from the report to the December meeting of the committee, and 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 2008 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 2013-14**

**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.
4. Two, (a) refocused council priorities within '*Focus 2013-15*' and (e) a review of the council's procurement strategy, have now been completed, whilst (d) a revised Local Code of Corporate Governance is on the agenda for this Audit Committee.

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

**Progress: COMPLETED**

5. A new document, '*Focus 2013-15*', was endorsed by Cabinet in October 2013. 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 provides justification for (and forms 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:**

6. Scheduled to be completed before the Annual Governance Statement for 2013/14 is considered by the Audit Committee in June 2014.

### **(c) Production of an annual report**

#### **Progress:**

7. 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 endorsement of *Focus 2013-15* by the Cabinet in October, the first annual report is due to be produced for May 2014, to coincide with a financial year reporting cycle.
8. Concurrently, quarterly performance reporting (which will now reflect the refreshed priorities enshrined within *Focus 2013-15*) continues to compile performance information which will serve as a basis for at least part of the annual report.

### **(d) Updating the 2008 Code of Corporate Governance**

#### **Progress:**

9. Reported to the Audit Committee in March 2014.

### **(e) Procurement Strategy Review**

#### **Progress:** COMPLETED

10. A revised council-wide procurement strategy was agreed by the Cabinet in October 2013.

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**Agenda Item No:** 13  
**Report To:** Audit Committee  
**Date:** 18<sup>th</sup> March 2014  
**Report Title:** **The Audit Plan**  
**Audit Committee Update**  
**Report Author:** Ben Lockwood  
Finance Manager



**Summary:** This paper introduces two reports from our external auditors that are designed to bring members up to date with their progress as our auditor and to outline their program of work for the coming months.

The reports contain a number of questions for members to consider and the report seeks to add some context to issues discussed.

**Key Decision:** NO

**Affected Wards:** All none Specifically

**Recommendations:** **The Audit Committee be asked to:-**  
**1. Note the Audit Plan**  
**2. Note the Audit Committee Update**

**Policy Overview:** The Audit Committee Update paper contains summaries of a number of papers and legislative changes that affect the council. Each section poses a number of questions to the committee that it may wish to discuss.

This follows on from the informal meeting that was held to discuss the 'tipping point' paper and much of the context contained within the reports on the budget and medium term financial plan.

**Other Material Implications:** None

**Contacts:** Ben.lockwood@ashford.gov.uk – Tel: (01233)



## **Report Title: The Audit Plan**

### **Audit Committee Update**

#### **Purpose of the Report**

1. To provide members some context to the issues discussed in the external auditor's reports.

#### **Issue to be Decided**

2. The committee is asked to discuss the two reports and consider the recommendations.

#### **Background**

3. Grant Thornton has been appointed the external auditor for Ashford Borough Council since September 2012. As auditor they have to produce an annual audit plan and they have also produced a report on their progress delivering their responsibilities as our external auditor.

#### **The Audit Plan**

4. This report is largely routine and outlines the auditor's approach to the work they need to do for the coming year. Included within the report is a timeline for this work and an estimate of their fees (which are included in our budget). Members will recall that the outsourcing of the Audit Commission's local audit work achieved a 40% reduction in fee costs fixed for five years. Fees for the financial audit may vary, but only if the external audit team is required to do more work due to the council in some way not fulfilling the standards set for the financial audit. These standards are set out each year as part of the audit fee proposal.
5. The report highlights a number of risk areas that the audit work will examine, the significant risks are common to all audits and relate to national issues, the other risks highlight areas that we would expect the audit to test.
6. The report highlights the results of the interim work for the financial audit. One area addressed following previous audits is the management control of 'journal entries' within the financial ledger. Controls are now in place which involve the Head of Finance routinely monitoring entries, but further discussions with the audit team are ongoing as there is a need to refine these controls to ensure both the process and effort are proportionate to the risks.
7. The audit of the 2012/13 Statements of Account highlighted one recommendation that we need to ensure that **all** members submit a third party declaration of interest form specifically for the accounts audit. Despite several reminders a small number of returns were either late or outstanding at the time of the audit. In response to this recommendation we have commenced this process earlier to give more time to secure a form from all councillors..

#### **Audit Committee Update**

8. This report paints a broader context to the audit activity and summarises a number of Grant Thornton's national reports as well as other relevant issues. Grant Thornton include a number of questions for members to consider, note these questions would be posed to the council as a whole.

### *'Tough Timers 2013'*

9. This report looks at the impact of the austerity measures on the sector, whilst it has responded well the continuation of austerity measures through to 2017 and possibly beyond to 2020, looks to increase the pressure on councils to maintain services and deliver balanced budgets.
10. This Council has fared well in the assessments of its financial standing and resilience. However given the aspirations of the Council and the plans to use its own balance sheet strength to promote growth and generate revenue we will need to develop a suite of indicators to allow us to measure and test our balance sheet exposure, in much the same way as a credit risk assessment.
11. The context for this is the Councils own financial planning and aspirations, which were updated and reported to members as part of the budget report. Whilst the authority is forecasting significant budget gaps, the cabinet and the management team is developing a set of savings proposals for the longer term as well as having confidence that ABC is well placed to benefit from the new funding regime for local authorities with buoyant New Homes Bonus receipts and good potential for increasing business rates yield.

### *Local Audit and Accountability Act*

12. Currently our audit arrangements are part of a larger contract that was let by the Audit Commission. Under the act this authority will have the responsibility for appointing its external auditor from a list of eligible firms once the commission is formally abolished in 2015. However existing audit contracts will run beyond that point and so it is still a little unclear as to the precise time when the council will first appoint its external auditor. The committee has received reports about these changes previously and there will be further reports to the committee on this topic later in the year.

### *'2016 Tipping Point?'*

13. Members will remember that the original 'Tipping Point' paper was discussed at an informal meeting of this committee last year. Grant Thornton has updated the findings based on a survey of 40% of the public sector last year. Its conclusions are very much in tune with the council's own thinking. Grant Thornton suggests that councils need a relentless focus on generating additional sources of revenue income, such as: investments in the commercial property portfolio; increased commercialisation of services and local authority trading; and regeneration and inward investment to boost local economic activity. In addition, councils will need to continue to improve efficiency through shared services, strategic partnerships and wider re-organisation.
14. Whilst at this stage the Grant Thornton recommended 'checklist' has not been completed formally as mentioned above detailed financial planning work is underway with the council developing its strategy to meet the financial pressures that are developing. The committee may wish to consider this issue again later in the year as part of its role in overseeing process concerning the council's management of strategic risks.

### *'Alternative delivery models in local government'*

15. This paper looks at some of the alternative delivery models that are being used by the sector to transform the way in which services are delivered. Working in partnership and transforming service delivery through new shared arrangements are principles where some practical applications are currently being considered. These are matters the cabinet and the management team

will review and from that assess the real potential for alternative models as part of the council's longer term business plan and financial strategy. As and when new models are considered this committee would wish to ensure that risks are identified and adequately managed.

*Welfare Reform – 'reaping the benefits'*

16. Members are asked to remember the pro-active work the Council is currently doing on this agenda, with the dual focus of providing good information, and support and incentives to help with 'back-to-work' aims. . There is a cabinet portfolio holder working group that is monitoring the work that is being done in response to this agenda and we have been engaging with the Department for Work and Pensions to develop a delivery partnership model to support Universal Credit. The Council has introduced two welfare reform officers who are tasked with working with our residents to help them manage the impact of the reforms. Overall this council has responded well to this agenda.

*Property Plant and Equipment Valuations*

17. The valuation and accounting implications are not expected to be an issue for the 2013/14 accounts due to the new revaluation contract that the council has entered into. This provides for a full revaluation for this year. Consideration will need to be given to how this issue is managed in subsequent years and outcomes will be reported to the audit committee as part of subsequent years' preliminary reporting on the closedown of the accounts.

*Accounting for Business Rate Appeal provisions*

18. This council has engaged positively with the Valuation Office Agency (VOA) from the very start of the introduction of the local retention of business rates policy. There have been presentation from the VOA as well as officers having met with representatives from them regularly.
19. The rationale for calculating the appeals liability was shared with members (through the former MTFP task group when the 2013 NNDR 1 form was approved) by members, and for 2014 was the assumptions were reported to the members as part of the budget report. The monitoring of business rate appeals handled by the VOA this year suggests that our estimates of potential outcomes were reasonable as actual outcomes are very much in line with the estimate. Information sharing between the VOA and councils is developing and this will greatly reduce the uncertainty carried by the appeals risk.
20. The appeals figure will be considered as part of the closing process and for the formal statement of accounts we feel that because of the information available it is unlikely we will need to disclose a 'contingent liability' for business rates appeals as our financial provisions will present a reasonable estimate of losses.

*Accounting for pensions and changes to the pension scheme*

21. There have been some amendments to the accounting code of practice that will change the way pensions costs are accounted for. We have drafted new accounting policies (elsewhere on the agenda) and received information from our actuary on the impact of these changes. It is not anticipated that this will result in a material change to the accounts.
22. The actuary has completed the latest triennial valuation of the pension fund, broadly the results were in line with the expected results of the last review and

for 2014/15 our contribution rates will be similar to the current level, with some manageable increases notified for the following two years.

23. On the changes to the pension scheme from April 2014, the council is well prepared for handling the practical implications. Staff are to receive full advice through the internal communication channels. Future payroll audits will examine compliance with the new regulations.

#### *Better Care Fund*

24. This new health policy from central government is principally for counties who must take forward through local Health and Wellbeing Boards. The first stage is the preparation of a full business plan. This stage is complete and has been the subject of consultation through the local Board. The first real impacts for the council come in 2015 when funding for disabled adaptation grants from government is channelled through counties and Health and Wellbeing Boards. Initially grant will be passported to districts. However with this and the better care fund arrangements more generally there are opportunities presented for the council to have some greater input to the shaping of local health and wellbeing services. Although early days our local health and wellbeing board is in place with a focus on this agenda, but it will be important for the council in time to assess its true effectiveness.

### **Handling**

25. Members are asked to consider the reports from our external auditors.

### **Conclusion**

26. Overall the reports are positive and show that the relationship with our auditors continues to be good.
27. Generally this Council is well placed to respond to the challenges that it faces, however the reports highlight the difficult environment in which we work and the need to maintain our focus on integrating financial and service planning to enable the Council to face the challenges ahead.

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# The Audit Plan for Ashford Borough Council

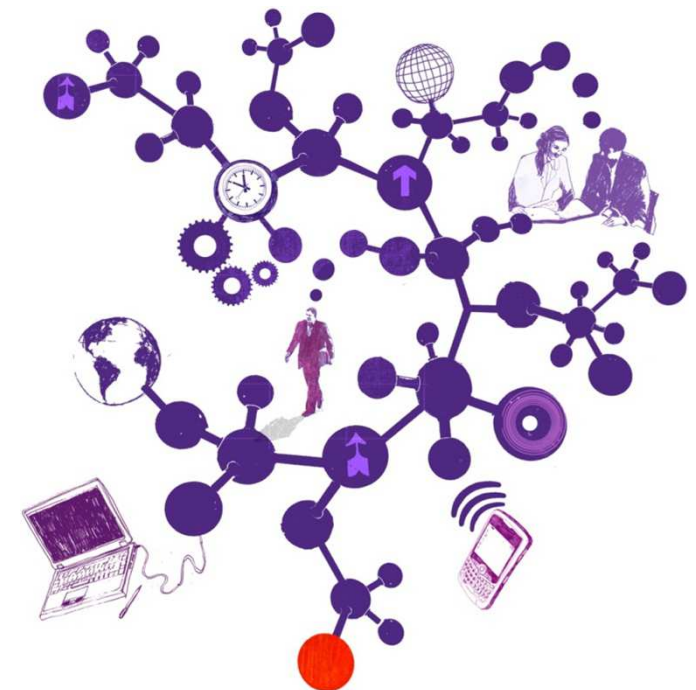
**Year ended 31 March 2014**

February 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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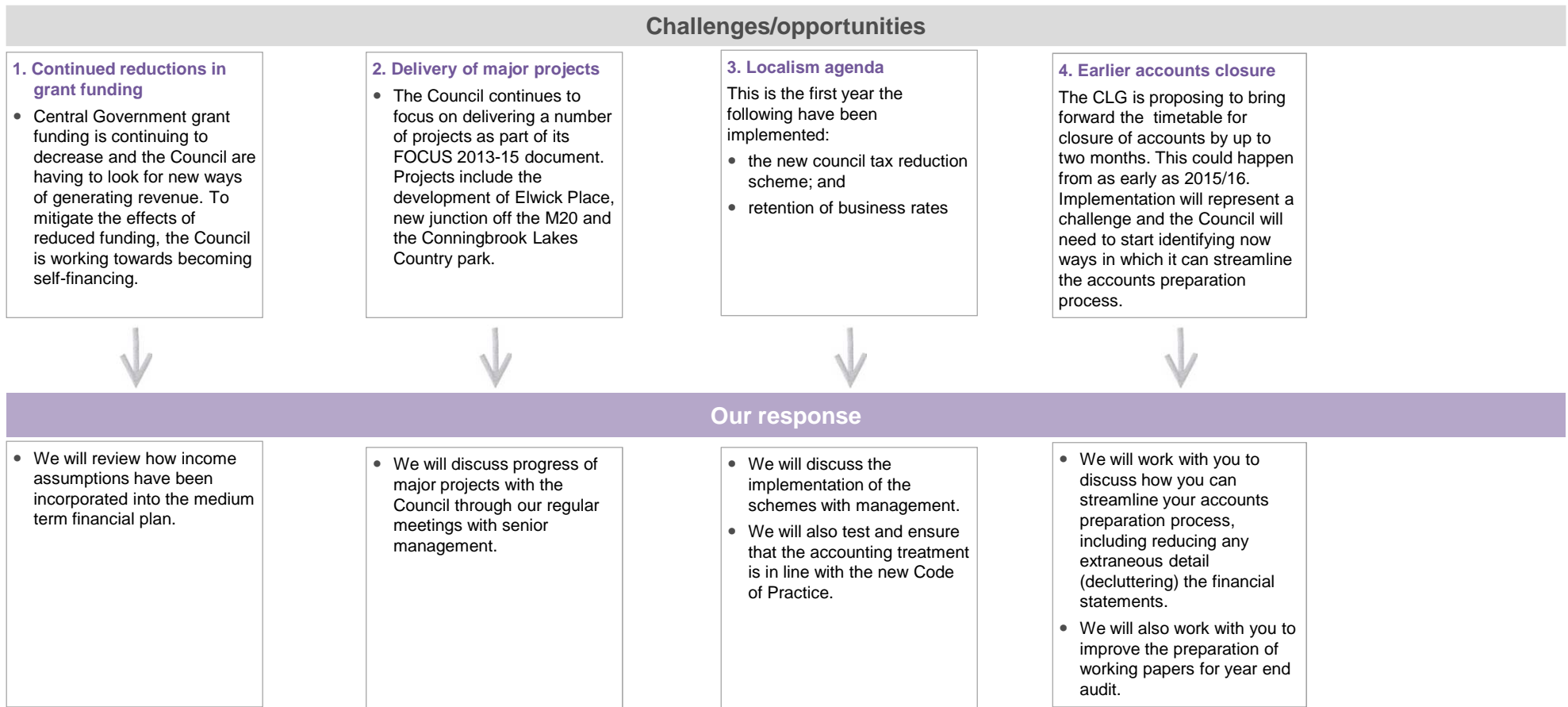
# Contents

## **Section**

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2. Developments relevant to your business and the audit
3. Our audit approach
4. Significant risks identified
5. Other risks identified
6. Value for Money
7. Results of our interim work
8. Key dates
9. Fees and independence
10. Communication of audit matters with those charged with governance

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.





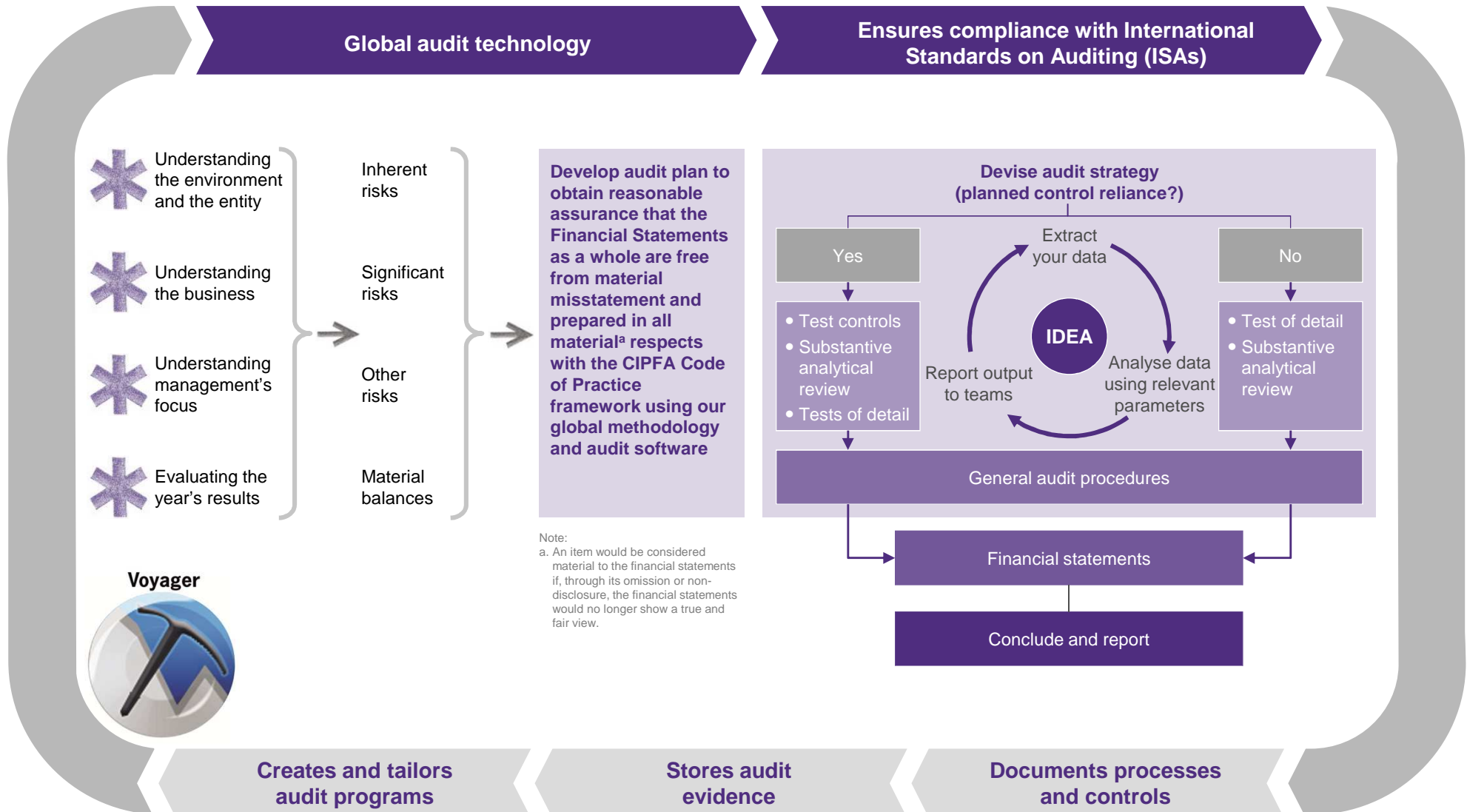
# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Clarification of Code requirements around PPE valuations</li> <li>• Changes to NDR accounting and provisions for business rate appeals</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> <li>• Welfare reform Act 2012</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul>	<p><b>4. Pensions</b></p> <ul style="list-style-type: none"> <li>• The impact of 2013/14 changes to the Local Government pension Scheme (LGPS)</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul>

Our response					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice and business rate appeals through discussions with management and our substantive testing</li> </ul>	<ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• We will review how the Council dealt with the impact of the 2013/14 changes through our meetings with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2013/14 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify grant claims and returns in accordance with Audit Commission requirements</li> </ul>

# Our audit approach



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## Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of unusual significant transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>Identification of controls and walkthrough of operating expenses system.</li> </ul>	<ul style="list-style-type: none"> <li>Agreement of general ledger to subsidiary accounts payable ledger and review control account reconciliations.</li> <li>Procedures to search for unrecorded liabilities</li> <li>Cut-off testing to ensure transactions recorded in correct accounting period.</li> </ul>
Employee remuneration	<ul style="list-style-type: none"> <li>- Employee remuneration accrual understated</li> <li>- Payroll tax obligations understated.</li> </ul>	<ul style="list-style-type: none"> <li>Identification of controls and walkthrough of employee remuneration system.</li> </ul>	<ul style="list-style-type: none"> <li>Agreement of general ledger to subsidiary payroll ledger</li> <li>Monthly trend analysis</li> <li>Testing to confirm the completeness of payroll transactions and appropriate cut off</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<ul style="list-style-type: none"> <li>Identification of controls and walkthrough of welfare expenditure system.</li> </ul>	<ul style="list-style-type: none"> <li>Reconcile figures in accounts to HB claim form.</li> <li>Completion of core testing for certification of the housing benefit scheme.</li> <li>For the Council Tax reduction scheme, we will reconcile figures to the supplementary system and will confirm accounting treatment is in line with the Code of Practice.</li> <li>Sample testing of council tax transactions with reductions applied.</li> </ul>
Housing Rent Revenue Account	Revenue transactions not recorded	<ul style="list-style-type: none"> <li>Identification of controls and walkthrough of housing rents system.</li> </ul>	<ul style="list-style-type: none"> <li>Agreement of housing rents system to the general ledger</li> <li>Agree general ledger to subsidiary rents ledger (if appropriate)</li> <li>Rental income cut-off tests</li> <li>Detailed analytical review and proof in total.</li> </ul>

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review of the medium term financial plan including the assumptions made;
- review of 2013/14 financial performance; and
- review of arrangements for implementing new projects and the localism agenda

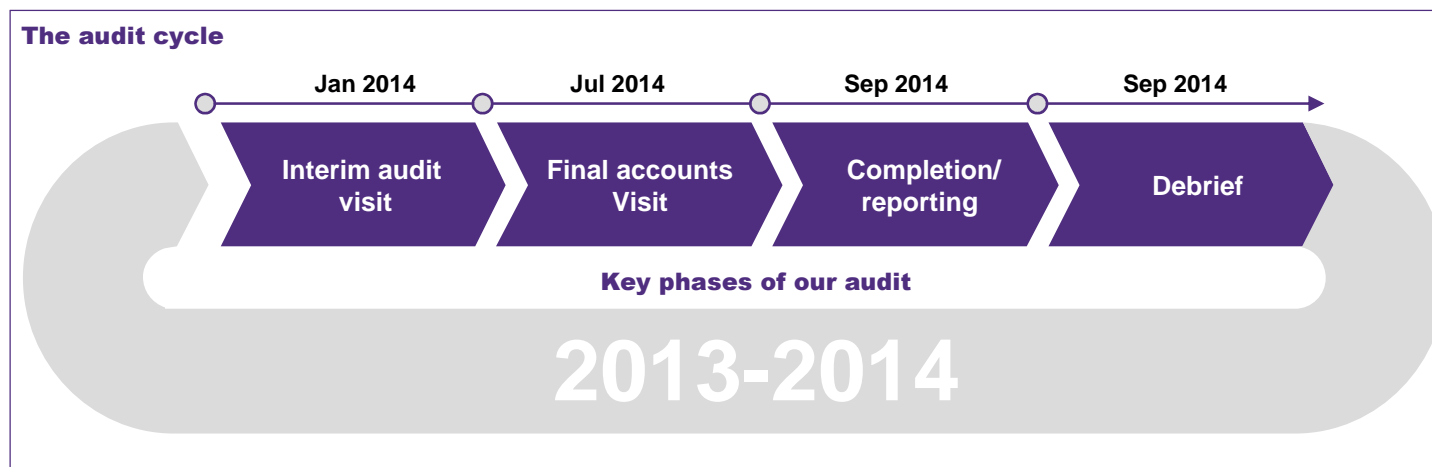
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Review of information technology controls</b>	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. This also includes a follow up of any issues that were raised last year.</p>	<p>Results of this work will be included in our next update report.</p>
<b>Journal entry controls</b>	<p>We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and evaluate whether there are any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will be undertaking substantive testing of in year journal transactions for the year as part of our final accounts testing. We will extract and consider 'unusual' entries for further review.</p>	<p>Results of this work will be included in our next update report.</p>

# Key dates



Date	Activity
Dec 2013	Planning
Jan 2014	Interim site visit
Mar 2014	Presentation of audit plan to Audit Committee
Jul 2014	Year end fieldwork
Aug 2014	Audit findings clearance meeting with Finance
Sep 2014	Report audit findings to those charged with governance (Audit Committee)
Sep 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	79,515
Grant certification	12,600
<b>Total fees (excluding VAT)</b>	<b>92,155</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

## Fees for other services

Service	Fees £
None	Nil

## 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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



# Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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](http://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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# Audit Committee Update for Ashford Borough Council

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**Year ended 31 March 2014**

February 2014

**Andy Mack**

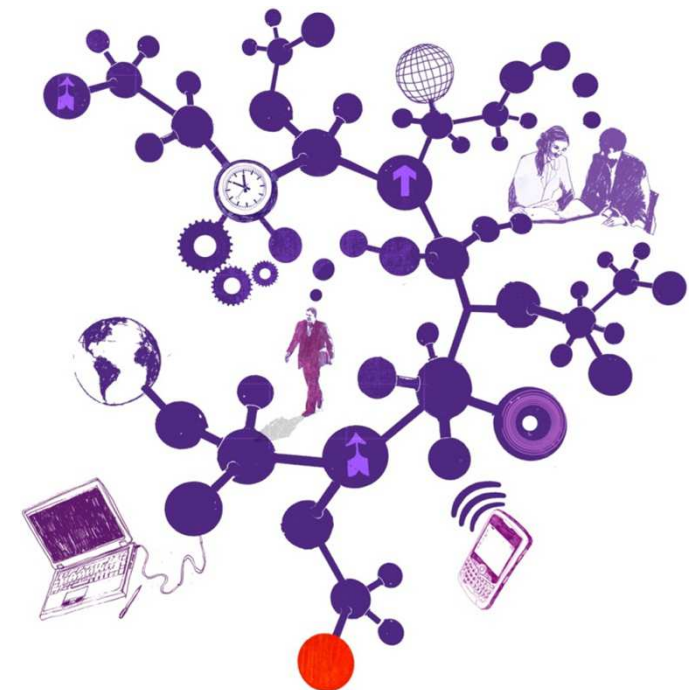
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a District Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', 'Surviving the storm: how resilient are local authorities?'

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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## Progress at February 2014

Work	Planned date	Complete?	Comments
<p><b>2013-14 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the District Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	March 2014	Yes	See included separately on this agenda
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the District Council control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	March 2014	Yes	This is reported within our audit plan, separately included on this agenda. There are no significant matters arising from our interim accounts audit work completed to date.
<p><b>2013-14 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2013-14 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	July 2014 – September 2014	Not yet due	<p>Our audit plan sets out the risks of material misstatement that we have identified during planning. It also sets out the work undertaken and planned in order to address them.</p> <p>We will report in full to the September committee within our Audit Findings Report.</p>

## Progress at February 2014

Work	Planned date	Complete?	Comments
<p><b>2013- 14 Value for Money (VfM) conclusion</b>            The scope of our work to inform the 2013/14 VfM conclusion is based on the reporting criteria specified by the Audit Commission:            The Council has proper arrangements in place for:</p> <ul style="list-style-type: none"> <li>• securing financial resilience – with work focusing on arrangements relating to financial governance, strategic financial planning and financial control.</li> <li>• challenging how it secures economy, efficiency and effectiveness in its use of resources.</li> </ul>	March 2014 – September 2014	Not yet due	<p>As set out in the audit plan, we have undertaken an initial risk assessment to identify areas of risk to our VfM conclusion.</p> <p>The results will be reported to the September committee meeting.</p>
<p><b>2013-14 Grant Certification</b>            We will be required to certify the following grants for the Council in 2013/14:</p> <ul style="list-style-type: none"> <li>• Housing and council tax benefit</li> <li>• Pooling of housing capital receipts</li> </ul>	June 2014 – November 2014	Not yet due	All initial testing on the housing benefit grant claim will be completed before the end of September and used to support our audit opinion on the financial statements.
<p><b>Other activity undertaken</b>            Since our last update:</p> <ul style="list-style-type: none"> <li>• Finance members have attended our accounts workshop, run with CIPFA/FAN</li> <li>• We have provided support on specific accounting and legal queries</li> </ul>	-	-	We would always be happy to discuss any other ways in which Grant Thornton can support the Trust.



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# Councils must continue to adapt to meet the needs of local people

## Local government guidance

### Audit Commission research - Tough Times 2013

The Audit Commission's latest research, <http://www.audit-commission.gov.uk/wp-content/uploads/2013/11/Tough-Times-2013-Councils-Responses-to-Financial-Challenges-w1.pdf> shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. However, with uncertainty ahead, the Commission says that councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.

The Audit Commission Chairman, Jeremy Newman said that with continuing financial challenges 'Councils must share what they have learnt from making savings and keep looking for new ways to deliver public services that rely less on funding from central government'.

#### Key findings:

The Audit Commission's research found that:

- the three strategies most widely adopted by councils have been reducing staff numbers, securing service delivery efficiencies and reducing or restructuring the senior management team;
- three in ten councils exhibited some form of financial stress in 2012/13 – exhibited by a mix of difficulties in delivering budgets and taking unplanned actions to keep finances on track;
- auditors expressed concerns about the medium term prospects of one third of councils (36 per cent)

#### Issues to consider/challenge questions:

How have members satisfied themselves that the Council can deliver a balanced budget, that the medium term strategy/budget has been subject to appropriate challenge and that the Council's finances are resilient over the medium term (3 years) and beyond?

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# Councils choosing their auditors one step closer

## Local government guidance

### Local Audit and Accountability Act

The Local Audit and Accountability Act received Royal Assent on 30 January 2014.

#### Key points

Amongst other things:

- the Act makes provision for the closure of the Audit Commission on 31 March 2015;
- arrangements are being worked through to transfer residual Audit Commission responsibilities to new organisations;
- there will be a new framework for local public audit due to start when the Commission's current contracts with audit suppliers end in 2016/17, or potentially 2019/20 if all the contracts are extended;
- the National Audit Office will be responsible for the codes of audit practice and guidance, which set out the way in which auditors are to carry out their functions;
- Local Authority's will take responsibilities for choosing their own external auditors;
- recognised supervisory bodies (accountancy professional bodies) will register audit firms and auditors and will be required to have rules and practices in place that cover the eligibility of firms to be appointed as local auditors;
- Local Authority's will be required to establish an auditor panel which must advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts;
- existing rights around inspection of documents, the right to make an objection at audit and for declaring an item of account unlawful are in line with current arrangements;
- transparency measures give citizens the right to film and tweet from any local government body meeting.

Issues to consider/challenge questions:

- Have members considered the implications of the Local Audit and Accountability Act for the Council's future external audit arrangements?

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# Joint Health and Social Care Plans to be in place by 4<sup>th</sup> April

## Local government guidance

### Better Care Fund

In the June 2013 Spending Round the Government announced the prospective implementation of the Better Care Fund (formerly the integration transformation fund). The key aim is to ensure a transformation in integrated health and social care through local single pooled budget arrangements. Pooled budget arrangements are formally underpinned by Section 75 of the NHS Act 2006.

#### Key issues

- £3.8 billion for funding will be available from 2015/16, largely through a top slice of existing Clinical Commissioning Group (CCG) budgets;
- Local Authorities with Adult Social Services, CCGs and NHS Trusts will need to collaborate through a single pooled budget arrangement to support the delivery of health and social care services in their designated local areas;
- finalised joint health and social care plans must be in place setting out how pooled budgets will be spent – draft plans must be formally signed off by each statutory Health and Well Being Board and submitted to NHS England area teams by 14 February, with a 4 April 2014 deadline for submission of finalised plans

#### Issues to consider/challenge questions:

- Is the local Health and Wellbeing Board on track to finalise and sign off the joint health and social care plan for submission to the NHS England area team?
- Has the size of the pooled budget been clarified?
- Is the Authority collaborating with its partner bodies to work through funding and delivery arrangements?
- Have roles and responsibilities been defined and understood for the Authority and its partner CCGs, NHS Trusts and the Health and Wellbeing Board?

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# 79% of Councils anticipate Tipping Point soon

## Grant Thornton

### 2016 tipping point? Challenging the current

This report [http://www.grant-thornton.co.uk/Global/Publication\\_pdf/LG-Financial-Resilience-2016-tipping-point.pdf](http://www.grant-thornton.co.uk/Global/Publication_pdf/LG-Financial-Resilience-2016-tipping-point.pdf) is the third in an annual series which assesses whether English local authorities have the arrangements in place to ensure their sustainable financial future.

Local authorities have so far met the challenges of public sector budget reductions. However, some authorities are predicting reaching tipping point, when the pressure becomes acute and financial failure is a real risk. Based on our review of forty per cent of the sector, this report shows that seventy nine per cent of local authorities anticipate some form of tipping point in 2015/16 or 2016/17.

Our report rates local authorities in four areas - key indicators of financial performance, strategic financial planning, financial governance and financial control. It also identifies a series of potential 'tipping point scenarios' such as local authorities no longer being able to meet statutory responsibilities to deliver a range of services.

Our report also suggest some of the key priorities for local authorities in responding to the challenge of remaining financially sustainable. This includes a relentless focus on generating additional sources of revenue income, and improving efficiency through shared services, strategic partnerships and wider re-organisation.

#### Challenge questions

- Our report includes a good practice checklist designed to provide senior management and members with an overview of key tipping point risks. Has the Finance Manager completed the checklist and reported it to the Audit Committee?
- The report also includes good practice case studies in strategic financial planning, financial governance and financial control. Has the Head of Finance Manager reviewed these case studies and considered whether there is scope to adopt these?

# Alternative Delivery Models – are you making the most of them?

## Grant Thornton

### Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

#### Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

# Welfare reforms – what you think of it so far?

## Grant Thornton

### Reaping the benefits: first impressions of the impact of welfare reform.

The potential scope of this topic is broad, so our report focuses on the financial and managerial aspects of welfare reform. This involves:

- Understanding the challenges currently facing local government and housing associations in regard to welfare reform and what organisations have been doing to meet this challenge in terms of strategy, projects and new processes.
- Reporting on the early indications of effectiveness following the implementation of these measures and the impact of reform.
- Providing early insight into challenges facing these organisations in the near future.

We have pulled together information from a variety of sources, including our regular conversations across the local government and housing sectors and surveying local authorities and housing associations in England.

We found that:

- In general, organisations have been very active in engaging with stakeholders and putting in place appropriate governance arrangements and systems to implement specific reforms. A minority of organisations did not fully exploit all the options open to them in preparing for reform.
- So far, the indication is that the impact of reform experienced by local authorities and partners has been managed effectively. This may be because the full impact has not yet been felt. Some worrying signs are emerging, including rising rental arrears, homelessness and reliance on food banks, which may be linked to the reforms.
- Looking ahead, further reforms, such as the implementation of universal credit and the move to direct payments present significant uncertainties and challenges over the next few years.

Challenge questions

- Has the Head of Benefits kept members informed of progress with stakeholder engagement and changes to governance arrangements to implement specific reforms?
- What impact assessment is the Authority carrying out on council tax localisation, the benefit cap and housing benefit, the spare room subsidy and changes to the Social Fund?
- Does the Authority have a plan in place or in development for the introduction of universal credit?

# Revaluing your assets – clarification of accounting guidance

## Accounting and audit issues

### Property, plant and equipment valuations

The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority will need to satisfy itself that the value of assets in its balance sheet is not materially different from the amount that would be given by a full valuation carried out on 31 March 2014. This is likely to be a complex analysis which might include consideration of:

- the condition of the authority's property portfolio at 31 March 2014
- the results of recent revaluations and what this might mean for the valuation of property that has not been recently valued
- general information on market prices and building costs
- the consideration of materiality in its widest sense - whether an issue would influence the view of a reader of the accounts.

The Code also follows the wording in IAS 16 more closely in the requirements for valuing classes of assets:

- items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates
- a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

There has been much debate on what is a short period and whether assets that have been defined as classes for valuation purposes should also be disclosed separately in the financial statements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. However, we would expect auditors to report to those charged with governance where, for a material asset class:

- all assets within the class are not all valued in the same year
- the class of asset is not disclosed separately in the property, plant and equipment note.

### Challenge question

Has your Finance Manager consulted you on the programme of valuations and the proposals for disclosing information about classes of assets?

# Estimating the impact of business rate appeals

## Accounting and audit issues

### Business rate appeals provisions

Local authorities are liable for successful appeals against business rates. They should, therefore, recognise a provision for their best estimate of the amount that businesses have been overcharged up to 31 March 2014.

However, there are practical difficulties which mean that making a reliable estimate for the total amount that has been overcharged is challenging:

- the appeals process is managed by the Valuation Office Agency (VOA) and so local authorities are reliant on the information provided to them by the VOA
- some businesses may have been overcharged but not yet made an appeal.

We would expect local authorities:

- to work with the VOA to make sure that they have access to the information they need
- where appeals have been made, to determine a methodology for estimating a provision and to apply this methodology consistently
- where appeals have not been made:
  - to consider the extent to which a reliable estimate can be made (for example, in relation to major businesses)
  - to recognise a provision where a reliable estimate can be made
  - to disclose a contingent liability where a reliable estimate cannot be made
  - to provide a rationale to support their judgement that a reliable estimate cannot be made
- to revisit the estimate with the latest information available immediately before the audit opinion is issued.

Challenge questions:

- Is your authority confident of obtaining the information it needs from the VOA?
- Has your authority recognised a provision where it is possible to make a reliable estimate? Has a robust methodology been used?
- Has your authority provided a robust rationale where it has decided it cannot make a reliable estimate? Is it planning to disclose a contingent liability?
- Is your authority planning to revisit its provision and contingent liability before the audit opinion is issued?



# Accounting for pensions

## Accounting and audit issues

### Accounting for and financing the local government pension scheme costs

#### Accounting issues

The 2013/14 Code follows amendments to IAS 19 and changes the accounting requirements for defined benefit pension liabilities such as those arising from the local government pension scheme (LGPS). This is a change in accounting policy and will apply retrospectively. The main changes we expect to see are a reallocation of amounts charged in the comprehensive income and expenditure statement (CIES) and more detailed disclosures. We do not expect changes to balance sheet items (the net pension liability and pension reserve balance). This means that whilst we would expect the CIES to be restated, a third balance sheet is not required. Actuaries should be providing local authorities with the information they need to prepare the financial statements, including restated comparatives.

#### Financing issues

The amount to be charged to the general fund in a financial year is the amount that is payable for that financial year as set out in the actuary's rates and adjustments certificate. Some local authorities are considering paying pension fund contributions early in exchange for a discount but not charging the general fund until later.

Local authorities must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year. Where local authorities are considering making early payments, we would expect them to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. We would expect this to include consideration of:

- the actuary's opinion on the amounts that are payable by the local authority into the pension fund
- the agreement between the actuary and the local authority as to when these payments are to be made
- the wording in the rates and adjustments certificate setting out when amounts are payable for each financial year.

For example, if a local authority agrees to make a payment to the pension fund in a single year and proposes to charge this amount to the general fund over a three-year period, we would expect the rates and adjustments certificate to show, unambiguously, that the amount payable is spread over the three years.

#### Challenge questions:

- Is your local authority confident of getting the information from its actuary to meet the changes in the requirements for accounting for the LGPS (including restating the comparatives)?
- If your authority is considering making an early payment to the pension fund, has it set out a reasonable argument for how it proposes to charge this amount to the general fund? Is this supported by legal advice?

# Changes to the public services pension scheme

## Accounting and audit issues

### Changes to the Local Government Pension Scheme

The Public Service Pensions Bill received Royal Assent in April 2013, becoming the Public Service Pensions Act 2013 ('the Act'). The Act makes provision for new public service pension schemes to be established in England, Wales & Scotland. Consequent regulations have been laid to introduce changes to the LGPS in England and Wales from 1st April 2014. (The regulations for the changes in Scotland have not yet been laid and will only impact from 1 April 2015).

These introduce a number of changes including:

- a change from a final salary scheme to a career average scheme
- introduction of a 50/50 option whereby members can choose to reduce their contributions by 50% to receive 50% less benefit
- calculation of contributions based on actual salary which could lead to some staff with irregular patterns of working moving between contribution rate bandings on a regular basis
- changes in employee contribution rates and bandings
- transitional protection for people retiring within 10 years of 1 April 2014 (further regulations are still awaited).

The above changes have implications for all employers involved in the LGPS introducing required changes to their payroll systems to ensure pension contributions are calculated correctly. This has consequent implications for administering authorities to communicate with employers and consider how they will obtain assurance over the accuracy and completeness of contributions going forwards since the calculations are more complex going forwards and less predictable. In addition changes are also required to pension administration/payment systems as well as much more detailed processes around maintaining individual pension accounts for all members to ensure the correct payment of future pensions.

The Act also requires changes to the governance arrangements although regulations for the LGPS have not yet been laid for these and the changes in governance arrangements are not expected to be implemented until 1 April 2015.

Challenge questions:

- Is the authority aware of the detailed requirements and their impact on its current payroll system and processes?
- Is the authority taking appropriate action to ensure implementation of the required changes to its payroll system and processes by 1 April 2014?
- Has the authority liaised with the administering authority over any changes they may need in the assurances provided over the completeness and accuracy of contributions?



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**Audit Committee - Future Meetings**

<b>Date 26/06/2014</b>			
<b>Publish by 18/06/14</b>			
<b>Reports to Management Team by 12<sup>th</sup> June</b>		<b>Council 17/07/14</b>	
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	Creation of a Corporate Fraud Investigation Team	PN/HD	
5	Report Tracker for Future Meetings	DS	

<b>Date 25/09/2014</b>			
<b>Publish by 17/09/14</b>			
<b>Reports to Management Team by 11<sup>th</sup> September</b>		<b>Council 16/10/14</b>	
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	

<b>Date 2/12/2014</b>			
<b>Publish by 24/11/14</b>			
<b>Reports to Management Team by 20<sup>th</sup> November</b>		<b>Council 11/12/14</b>	
1	Annual Governance Statement – Progress on Remedying Exceptions	PN	
2	Annual Audit Letter 2013/14	Gr Th (cover by PN)	
3	Internal Audit Interim Report	IC	
4	Report Tracker & Future Meetings	DS	

<b>Date 03/03/2015</b>			
<b>Publish by 23/02/14</b>			
<b>Reports to Management Team by 19<sup>th</sup> February</b>		<b>Council 16/04/14</b>	
1	The Audit Plan for Ashford Borough Council	Gr Th (cover by ABC)	
2	Certification of Grant Claims – Annual Report	Gr Th (cover by ABC)	
3	Presentation of Financial Statements	MS	
4	Strategic Risk Management – 6 Monthly Update	BP	
5	Annual Governance Statement – Progress on Remedying Exceptions	PN	
6	Internal Audit Operational Plan 2015/16	BP	
7	Report Tracker for Future Meetings	DS	

10/3/2014