



Notice of a Meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane,  
Ashford, Kent TN23 1PL on Tuesday, 1<sup>st</sup> December 2015 at 7.00 pm.

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The Members of this Committee are:-

Cllr. Link (Chairman)  
Cllr. Waters (Vice-Chairman)  
Cllrs. Buchanan, Chilton, Powell, Shorter, Smith, White

**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

Page  
Nos.

1. **Apologies/Substitutes** – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)
2. **Declarations of Interest:-** To declare any interests which fall under the following categories, as explained on the attached document: 1
  - a) Disclosable Pecuniary Interests (DPI)
  - b) Other Significant Interests (OSI)
  - c) Voluntary Announcements of Other Interests

See Agenda Item 2 for further details

3. **Minutes** – To approve the Minutes of the Meeting of this Committee held on the 29<sup>th</sup> September 2015

### Part I – For Decision

4. Safeguarding – Internal Audit Findings
5. Annual Audit Letter 2014/15
6. Internal Audit Interim Report

### Part II – Monitoring/Information Items

7. Annual Governance Statement – Progress on Remedying Exceptions
8. External Audit Progress Report

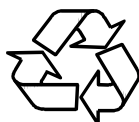
9. Annual Report on Reserves and Balances
10. Reporting for ABC Companies
11. The Future of Local Public Audit
12. Report Tracker and Future Meetings

DS/VS  
23<sup>rd</sup> November 2015

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Queries concerning this agenda? Please contact Danny Sheppard:  
Telephone: 01233 330349 Email: [danny.sheppard@ashford.gov.uk](mailto:danny.sheppard@ashford.gov.uk)  
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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)
- (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 **29<sup>th</sup> September 2015**.

### Present:

Cllr. Link (Chairman);  
Cllr. Waters (Vice-Chairman);  
Cllrs. Bartlett, Buchanan, Shorter, Smith, White.

In accordance with Procedure Rule 1.2(iii) Councillor Bartlett attended as Substitute Member for Councillor Powell.

### Apologies:

Cllrs. Chilton, Powell.

### Also Present:

Cllr. Michael.

Deputy Chief Executive, Head of Audit Partnership, Head of Finance, Head of Personnel & Development, Deputy Head of Audit Partnership, Accountant, Policy & Performance Officer, Senior Member Services & Scrutiny Support Officer.

Lisa Robertson - Grant Thornton UK.

## 145 Declarations of Interest

Councillor	Interest	Minute No.
Shorter	Made Voluntary Announcements as a Director of Kent Play Clubs and as a Director of the ABC Building Consultancy Company.	147
Smith	Made a Voluntary Announcement as he drew and received added years for a Local Government Pension.	147

## 146 Minutes

### Resolved:

**That the Minutes of the Meeting of this Committee held on the 30<sup>th</sup> June 2015 be approved and confirmed as a correct record.**

## **147 Statement of Accounts 2014/15 and the Appointed Auditor's Audit Findings**

The report presented the 2014/15 Statement of Accounts for approval. The Appointed Auditor's report was also appended and this issued an unqualified opinion on the accounts. Once approved by this Committee the accounts would be published.

Mrs Robertson introduced the audit findings report from Grant Thornton which outlined the key issues arising from their audit. She said that it had been a good year in terms of the quality of the financial statements and she was pleased to say that they would be issuing an unqualified opinion on the accounts and on the value for money opinion. There were some slight updates to the published findings report in terms of: - the outstanding work as outlined on page 19 of the report which had now been completed; a misstatement in the business rates bad debt provision calculation; and an additional misstatement with regard to the depreciation of the value of International House which had not been made in the original document. She advised that the statutory closure of the accounts would be brought forward to 31<sup>st</sup> July in 2018 (for the 2017/18 Accounts) and the Council intended to work to that timetable next year as a trial run. As this year's statement had been prepared by 31<sup>st</sup> May, Grant Thornton was confident that this deadline could be achieved for the 2015/16 Statement and beyond.

A Member asked about valuations and why the uplift recommended by Wilkes Head and Eve for Depreciated Replacement Cost assets had not been actioned by the Council. He also asked why International House had been assessed by the Council and the External Auditors as an operational asset rather than an investment property and what the difference in value would have been if it had been valued at market value rather than at Existing Use Value. Mrs Robertson said that she thought the uplift for Depreciated Replacement Cost assets not being actioned was a simple oversight by the Council. In terms of the valuation of International House, the External Auditors had undertaken a detailed review of the Council's assessment and were happy that the Existing Use Value had been correctly applied. It was an asset to make money, but the purchase also had a wider purpose in terms of building up the economy of that area of Ashford. The Head of Finance said he would provide details to the Member about what the difference in the valuation of International House would be if it was classed as an investment property rather than an operational asset. The Member said he would also like details of the insurance cost of the property and information on its yield.

A Member said that the improvements in the quality of the Statement of Accounts from where they were when he first came on to the Council were substantial and he wanted to congratulate the Officers involved. That sentiment was shared by the Committee and it was requested that the message be fed back to the team.

The report was then opened up to the Committee for discussion and the following points were raised: -

- National Counties was a building society which was on Arlingclose's (the Council's Treasury Management Advisors) approved counterparty list. It did not have a credit rating in the same way as some of the other financial institutions but Arlingclose assessed its balance sheet and made their recommendation accordingly.
- Auditors had considered that the unadjusted misstatements could be treated as such in the statements because they were not material.
- On a more general point, Members said that the Statement of Accounts and accompanying reports did represent a large and technical document and queried whether it could be tackled gradually in tranches or as the only item on an Agenda. The Head of Finance explained that there were tight timescales in producing and presenting the accounts but in the future it may be possible to share the draft copy with Committee Members as well to give them that bit more time. He also advised that Members training had been arranged to introduce them to the Statement of Accounts and he would be happy to re-run that training or hold a surgery for Members' questions if that would be useful.

The Chief Financial Officer's Letter of Representation to the Appointed Auditor was then tabled for the Committee's attention. Following a brief recess to allow Committee Members to read its contents and express their agreement, the letter was then signed by the Chairman and the Deputy Chief Executive in his role as Section 151 Officer.

**Resolved:**

- That**
- (i) the Appointed Auditor's Audit Findings be received and noted.**
  - (ii) the basis upon which the accounts have been prepared (Going Concern) be agreed.**
  - (iii) the audited 2014/15 Statement of Accounts (Appendix B to the report) be approved.**
  - (iv) the Chairman of this Committee signs and dates the accounts as required by Section 10(3) of the Accounts and Audit Regulations 2003 and this be the formal approval by the Council.**
  - (v) the Chief Financial Officer's Letter of Representation to the Appointed Auditor (as tabled at the meeting) be approved.**

## **148 Weak and Poor Assurance Reporting**

The Head of Audit Partnership introduced the report which advised that further to previous discussions with Audit Committee Members, it was proposed to introduce a methodology to allow Members earlier and more detailed engagement in audit reports which concluded that controls offered only 'weak' or 'poor' assurance. He

also took the opportunity to introduce Russell Heppleston who was the new Deputy Head of the Mid Kent Audit Partnership.

Members thanked the Head of Audit Partnership for his report which was considered a step in the right direction, but they did want to be more explicit that the default position for any area receiving a 'weak' or 'poor' assurance rating should be that the relevant Head of Service will attend the next Audit Committee meeting to discuss the situation and answer questions. They were not content to have a potential 'dwell' period where a decision had to be made whether to call a Head of Service or not, and more specific wording in this regard would not leave any doubt as to the requirements of the Committee.

**Resolved:**

**That subject to the addition of wording making it clear that any area receiving a 'weak' or 'poor' assurance would result in the relevant Head of Service attending the next Audit Committee to discuss the situation and answer questions, the proposal be implemented in Ashford Borough Council audit reporting.**

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

The Policy & Performance Officer introduced the report which updated on the progress made towards the areas of review highlighted by the 2014-2015 Annual Governance Statement. He advised that the Statement had outlined two areas of further work: - one around the need for the Council to agree a new Corporate Plan, which was scheduled for October 2015; and the second to complete work reviewing the Council's risk management procedures which was an Agenda item later on at this meeting. The Portfolio Holder said he was satisfied that the report was accurate and correct.

**Resolved:**

**That the progress made towards the areas of review highlighted by the Annual Governance Statement as detailed in the report be noted.**

## **150 Strategic Risk Management**

The Head of Personnel & Development introduced the report which provided the Committee with the progress Officers were making in reviewing the Council's current risk management processes. This followed on from previous discussions on the subject with Members. She drew attention to the amended scales in the report, how the framework tied in to the Council's emerging Corporate Plan and the tests on it that had been carried out by Management Team. She also summarised the proposed new risk management process step by step and the next steps in terms of roll-out and review. The next update report would come to this Committee in March 2016. The Head of Audit Partnership said he fully endorsed the content of the report and said it provided good harmony with the work of Internal Audit.

The Portfolio Holder said he was very pleased with the document. He said it identified, in a measured way, that risk was part of everything the Council did. Risk was not something to be avoided at all costs but to be embraced and managed and opportunities should be taken to benefit the residents of the Borough.

**Resolved:**

**That (i) the progress made in reviewing the Risk Management Framework be noted.**

**(ii) the next steps be noted and supported.**

## **151 Report Tracker and Future Meetings**

The Deputy Chief Executive advised that Officers still intended to deliver a programme of pre-Committee briefings at 6pm before each meeting. The first had taken place prior to this meeting and covered the Council's Treasury Management Arrangements. Members were encouraged to let him know if they had any particular topics they would like to cover.

**Resolved:**

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

DS



**Agenda Item No:** 4  
**Report To:** AUDIT COMMITTEE  
**Date:** 1 DECEMBER 2015  
**Report Title:** SAFEGUARDING AUDIT REPORT  
**Report Author:** Rich Clarke



**Summary:** The report sets out findings and brief of the recent audit into the controls designed and operated by the Council to ensure it meets its safeguarding obligations. The report is marked as 'draft' in anticipated completion of the enclosed action plan, but its findings and recommendations are accepted by officers.

**Key Decision:** No

**Affected Wards:** All

**Recommendations:** **1. The Audit Committee notes the findings of the Safeguarding audit and makes appropriate further enquiries of officers.**

**Policy Overview:** Not Applicable

**Financial Implications:** Not Applicable

**Risk Assessment** No

**Equalities Impact Assessment** No

**Other Implications:** Not Applicable

**Exemptions :**

**Background Papers:** Safeguarding Audit Report (CG05(15-16))

**Contacts:** rich.clarke@midkent.gov.uk – Tel: (01233) 330442

## Report Title: Safeguarding

### Purpose of the Report

1. Our audit plan, approved by Members in March 2015, included an audit intended to examine the controls designed and operated by the Council to ensure it meets its Safeguarding responsibilities. This report represents the conclusions of that audit.
2. Present at the meeting will be Mark Carty (Head of Cultural Services) and Tracy Kerly (Head of Housing) – who were joint sponsors of the audit – together with Christina Fuller (Designated Safeguarding Officer) who will inform Members of officers response to the audit findings and intended way forward.

### Background

3. We began work in July 2015 against the audit brief set out from page 13 of the Audit Report. This sought specifically to examine controls against the responsibilities given to the Council by section 11 of the Children Act 2004 for safeguarding of children and vulnerable adults. We undertook fieldwork between July and September 2015 and, after delays in the initial timeline caused principally by staff absence over the summer period, issued our draft report to officers on 28 October 2015.
4. Our usual expectation on issuing a draft report is for a response and completed action plan within ten working days. However, given the range of safeguarding responsibilities and the Council's understandable wish to ensure comment from a broad scope of officers within the Council, officers have requested additional time to formally complete the action plan.
5. In audit, we are satisfied that is a reasonable request given that we have seen clear evidence of officers' appropriate response (with initial meetings to discuss the report having taken place at Management Board level) and we appreciate there was initial confusion about expectations in which the process was not clearly communicated. Consequently we expect a formal response to the action plan (and the report's full finalisation) in December. However, we note, and are grateful for, officers' positive and accepting response to the report and its conclusions.

### Risk Assessment

6. It is important to note that the report, while less than satisfactory, is not at the 'poor' level of assurance where we would note a failing service. Rather, at 'weak' level, we are describing a service which may well have elements of good practice but is not reaching the required level consistently.
7. With respect to Safeguarding, we found no evidence that the Council is in breach of its statutory responsibilities or that it was putting children or vulnerable adults in danger. Instead, our concern is that arrangements are not sufficiently advanced or embedded in the Council's processes to ensure it can consistently and effectively meet those responsibilities.

8. Therefore, the current risk is best characterised as potential. In not having processes clearly embedded and documented the Council runs the risk that, should an incident occur, it may not be able to clearly evidence it had fulfilled its responsibilities.

## **Equalities Impact Assessment**

9. There are no proposals made in the report that require an equalities impact assessment.

## **Other Options Considered**

10. Not applicable

## **Consultation**

11. The audit findings have been discussed and agreed with the audit sponsors (the Head of Cultural Services and Head of Housing). As noted above, we await formal response in the form of a completed action plan.

## **Implications Assessment**

12. Not Applicable

## **Handling**

13. Not Applicable

## **Conclusion**

14. The report presents for Member comment and enquiry the results of our work on the Council's Safeguarding responsibilities. The overall conclusion was that, although statutory responsibilities are met, the Council is not tracking or gathering information efficiently or comprehensively which could leave it vulnerable in the event of safeguarding incident.

## **Portfolio Holder's Views**

15. The relevant Portfolio Holder for audit, Cllr Neil Shorter, is a member of the Audit Committee.

**Contact:** Rich Clarke  
**Tel:** (01233) 330442  
**Email:** [richard.clarke@ashford.gov.uk](mailto:richard.clarke@ashford.gov.uk) or [rich.clarke@midkent.gov.uk](mailto:rich.clarke@midkent.gov.uk)

# MID KENT AUDIT

## SAFEGUARDING DRAFT AUDIT REPORT

October 2015

Draft Assurance Rating: **Weak**

<b>Audit Code</b>	ABC-CG05(15-16)	<b>Service</b>	Corporate Governance
<b>Senior Auditor</b>	Claire Walker	<b>Audit Sponsors</b>	Mark Carty Tracey Kerly
<b>Head of Audit Partnership</b>	Rich Clarke	<b>Chief Executive</b>	John Bunnett



# MID KENT AUDIT

## Summary Report

We conclude based on our audit work that the Safeguarding function has **Weak** controls to control its risks and support its objectives. We provide the definitions of our assurance ratings at appendix II.

The audit focussed on the Council's management of the risks associated with operation of the Safeguarding function. We examined similar areas to the statutory assessment tool's 8 standards and aimed to assess the effectiveness of the arrangements for safeguarding children. Our findings are consistent with a 2014 peer assessment undertaken by the Kent Children's Safeguarding Board against the Council's statutory responsibilities under Section 11 of the Children Act 2004. Most (6 of 8) areas in that assessment were graded as "partially met" at best because of out of date policies and procedures and limited training rollout. We also note that the peer assessment differed considerably from the Council's own assessment recording all standards as 'met'.

The Council established a working group in response to the peer review, aimed at implementing improvements ahead of a 2016 further review. While the Council has made some progress, overall advances are limited especially considering revised processes will need to be demonstrably embedded by the time of re-assessment.

We also examined governance arrangements, training, recruitment aspects, and referrals. We found that the current Council policy and procedures are untested since Housing staff are routinely using external protocols rather than Council procedures. This means that, although statutory requirements are met, the Council is not itself tracking or gathering information on referrals efficiently or comprehensively.

Notable practice identified	Areas to improve
<ul style="list-style-type: none"><li>Internal Working Group established to address identified weaknesses</li></ul>	<ul style="list-style-type: none"><li>Policy scope, content, currency and accessibility (R1) (R4)</li><li>Roles &amp; Responsibilities (R2)</li><li>Training provision (R3)</li><li>Record of Referrals (R6) &amp; Reporting (R5)</li></ul>

# MID KENT AUDIT

## Next Steps

At page 11 we describe the 6 recommendations arising from our work. The recommendations will form a discussion culminating in a management response to each rated recommendation. We will then issue a final report incorporating the management response. We will follow up recommendations as they fall due in line with our usual approach and consider re-evaluating the assurance rating as the service acts to address the issues identified.

We have prioritised our recommendations as below:

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	5	1	0	0

We provide the definition of our recommendation priorities at appendix [II].

## Findings in Context

This is a new area for review and has not been previously reviewed at the Council so it is not possible to state whether there has been an increase or decrease in the Council's safeguarding arrangements.

Safeguarding has been reviewed at Swale Borough Council in March 2015 and Maidstone Borough Council in October 2015. Both were assessed as having weak controls and are working on action plans aimed to improve consistency and reach of controls. However, we note that, despite a more limited scope, this review has identified less developed controls than operating elsewhere, particularly with respect to risk assessing staff and identifying training needs.

## Independence

We are required by Public Sector Internal Audit Standard 1100 to act at all times with independence and objectivity. Where there are any threats, in fact or appearance, to that independence we must disclose the nature of the threat and set out how it has been managed in completing our work.

We have no matters to report in connection with this audit project.

# MID KENT AUDIT

## Acknowledgements

We would like to express our thanks to all those officers who assisted completion of this work, in particular Christina Fuller, Cultural Projects Manager, Rebecca Wilcox, Housing Operations Manager, James Hann, Health, Parking & Community Safety Manager, and Simon Harris, Sports Project Manager.

Audit team and contact details	Report distribution list
<p><b>Head of Audit Partnership</b> Rich Clarke (<a href="mailto:Rich.Clarke@MidKent.gov.uk">Rich.Clarke@MidKent.gov.uk</a>)</p> <p><b>Senior Auditor</b> Claire Walker (<a href="mailto:Claire.Walker@MidKent.gov.uk">Claire.Walker@MidKent.gov.uk</a>)</p>	<p><b>Draft and final report</b> Tracy Kerly: Head of Community &amp; Housing Mark Carty: Head of Culture &amp; the Environment Paul Naylor: Deputy Chief Executive &amp; s.151 Officer</p> <p><b>Final Report Only</b> John Bunnett: Chief Executive Audit Committee</p>

# MID KENT AUDIT

## Detailed Findings

We completed fieldwork during October 2015 to the agreed objectives and using the tests set out in the final audit brief dated July 2015. We include the audit brief at appendix I, which includes a timeline amended from original issue to reflect officer leave during the fieldwork and finalisation period.

### **Objective 1: To assess the adequacy of the governance arrangements in place to enable the Council to satisfy its statutory obligations for safeguarding.**

We found that internal policies and procedures were out of date did not reflect the newer safeguarding developments and reference materials. Although on the intranet, policies and procedures are not easy to locate **(R1)**.

Discussions with staff and review of referral cases found that the policy only reflected a limited approach to safeguarding (children & vulnerable adults under 25 years old) which did not fit with the main referral service (Housing, whose work also covers adults) or the community safety agenda (“safeguarding” used to cover a wider scope of “child protection”). Reference materials used by frontline services such as Housing and Community Safety are largely derived from external parties such as Kent Safeguarding Children’s Board, even though those sources are clear documents could be tailored for local benefit. Comparison of internal Policy references (the main safeguarding policy compared with staff related policies) found some inconsistencies in process and intent, also out of date references **(R1)**.

Roles and responsibilities were defined in a number of locations (including the constitution) and materials indicated a proposed redesign and relocation of the key post (The Designated Officer) that would be more in keeping with the wider and current safeguarding agenda. Such changes would enable the policy and procedure to be revised in line with current trends **(R2)**.

The 2014 review feedback resulted in a reduction of the grades assessed internally (8/8 met), with 1/8 met, 1/8 not met and the remaining 6/8 partially met (See Appendix III). The Council’s response (January 2015) was to set up an internal working group to develop and progress an action plan and which met 4 times January – July 2015. We found that some progress had been made but that some areas had still to be fully actioned, such as training (see under objective 2) and accountability (see under objective 3). The peer review



# MID KENT AUDIT

identified that 3 of 4 standards covered by this audit objective were partially met (senior management commitment, clear statement of responsibility, and clear line of accountability, see under objective 3) and 1 of 4 not met (service development) where the external assessment required direct feedback from clients rather than remote input such agency representative for a feedback.

**Conclusion:** Test findings demonstrate that governance arrangements require development to meet the objective. Although a working group action plan is in place, there is some way to go to meet and sustain meeting required standards.

<b>R1: Policy &amp; Procedure</b>	<b>Priority 2: High</b>
Revise safeguarding policies & procedures and ensure easily accessible	

<b>R2: Roles &amp; Responsibilities</b>	<b>Priority 2: High</b>
Review functional scope & location and the supporting accountability arrangements	

# MID KENT AUDIT

## **Objective 2: To establish whether safeguarding training, recruitment and staff checks are carried out in compliance with statutory requirements and safeguarding policies**

Standard 5 of the peer review checklist relates to staff training and employer responsibility for ensuring that staff are competent to carry out their responsibilities. The Council has a clear induction process however some staff were unable to recall topics covered 1-2 years later. The Council's Safeguarding specific Training strategy (2008) is under review and covers children and young people; its contents and approach need revision. The strategy includes a 3 level categorisation reflecting the degree of child-centric involvement and thus onward implications for training and responsibilities. The Designated Officer is recorded in the peer review report as having undertaken no training (although such training is supposed to be mandatory at least every 2 years), specific staff training has not been delivered for at least 2 years, and E training records only 1 course completion (by the new Training officer). Consequently we cannot confirm that any relevant staff have received recent appropriate training. The training links to roles and job descriptions require strengthening as recognised in the peer review report and feedback **(R3)**

The Council's recruitment policies and practices are described in specific subsections of the Conditions of Service Handbook (the collated repository for all staff related policies and procedures) and available on the intranet. Comparison of the Safeguarding material against the Personnel material identified some differences in approach, in particular with regard to receipt of Disclosure & Barring Service (DBS) checks (Safeguarding requires prior employee start receipt whilst Personnel requires post employee start receipt). Consequently, if following the personnel material, it may be that the Council does not receive appropriate DBS check confirmation until after the employee has started work. **(R4)**

The Council's recruitment material, from advert through to appointment, clearly states the requirements for DBS checks. The Council undertakes DBS checks on new and existing staff, and also acts as an umbrella to enable other bodies (such as Ashford Leisure Trust, and the Licensing function) to obtain checks, with all checks (starters and renewals) recorded on a central log.

With regard to non staff arrangements we found that grant funding programme arrangements met Council policy and procedures requirements i.e. safeguarding requirements placed on relevant funded recipients. We noted the peer review findings concerning the need to improve on contract and sub contract provisions and checks.

# MID KENT AUDIT

**Conclusion:** Test findings demonstrate that training, recruitment and staff checks require attention to meet the objective. Although a working group action plan is in place, there is some way to go to meet and sustain meeting required standards. The group has physically met 4 times and progress depends on resolution of issues such as resource allocation (change of designation officer location and provisions of training regimes).

<b>R3: Training</b>	<b>Priority 2: High</b>
<b>Implement training programme tailored to role &amp; contact levels</b>	

<b>R4: Alignment of Policy &amp; Procedure</b>	<b>Priority 3: Medium</b>
<b>Align staff policies with safeguarding policies &amp; procedures</b>	

# MID KENT AUDIT

## **Objective 3: To establish whether safeguarding incidents are dealt with and reported in accordance with statutory requirements and the safeguarding policies.**

The Council engages in multi agency relationships to help inform service delivery (youth orientated organisations) and professional practice (KSCB and similar agencies). Council staff attend a number of groups (such as KSCB Designated Lead Officers Forum and the Ashford Children's' Health & Wellbeing Committee), and more than one service is represented on some forums.

The Council has documented policy and procedure with regard to referrals and incident handling, however these have not been tested in practice as staff advised that no such referrals had been made in at least the last 5 years, and possibly not at all. This may be a genuine reflection of (lack of) events, but may also link with the training and policy accessibility issues (**R1** and **R3**).

By contrast Housing has made a number of referrals, under different reporting regimes. These referrals were based on external protocols for safeguarding (adults and children) and involved multi agency response through case specifics, such as Kent County Council Child Social Services in child in need or child protection cases (**R1**). The nature and scope of Housing referrals means that the record keeping and referral processes are distinct from Council policy and records viewed on case files were generated and kept in accordance with the relevant reporting regime. Housing's use of non Council protocols highlights the lack of awareness of Council policy and procedures to the service and the need to link Council policy with the wider safeguarding agenda.

The Council does not undertake any tracking or monitoring of referrals. There is no formal up to date record of cases. Housing holds a historic spreadsheet, said to record all referrals, however its location was not known to staff interviewed and the fact it is held on an unprotected spreadsheet raises issues around the security and integrity of the data in particular given that it is highly likely to contain the most sensitive personal data relating to the health and circumstances of vulnerable individuals (**R5**).

The absence of data may impact on resource and safe community interests as the Council consequently does not have an informed overview of safeguarding.

We found that there is no formal reporting mechanism within the Council for Safeguarding and discharge of function (**R5**). The Statutory peer review standards 1 and 2 cannot be fully discharged without some form of reporting mechanism which helps demonstrate senior

# MID KENT AUDIT

management commitment to the importance of safeguarding and promoting children's welfare and a commitment to safeguarding throughout the organisation, for example reporting on implementation of the action plan.(R6)

Statutory peer review standard 8 relates to Information sharing. The Council has organisation specific guidance on information sharing through its Information Technology policies, available on the intranet. We found varying degrees of awareness of the other information sharing protocols in existence (Government Guidance, Kent Information Guide and multi agency agreements) which indicates a training need (R3).

**Conclusion:** Test findings demonstrate that incidents and referrals are handled in accordance with external protocols and that the Council's own protocols have not been invoked for a number of years (at least 5 years). The absence of referrals, based on Council protocols, and combined with the lack of training / awareness means that the Council cannot demonstrate nil referrals raised from an informed and observant workforce perspective.

<b>R5: Reporting</b>	<b>Priority 2: High</b>
<b>Develop and implement an appropriate reporting regime</b>	

<b>R6:Records</b>	<b>Priority 2: High</b>
<b>Develop and maintain a secure means of recording referrals and associated information</b>	

# MID KENT AUDIT

## Recommendations and Action Plan

<b>R1: Policy &amp; Procedure</b>		<b>Priority 2: High</b>
<b>Revise safeguarding policies &amp; procedures and ensure easily accessible</b>  Current material is out of date and cannot easily be located on the intranet.		
<b>Management Response</b>		
<b>Responsible officer:</b>		<b>Implementation date:</b>

<b>R2: Roles &amp; Responsibilities</b>		<b>Priority 2: High</b>
<b>Review functional scope &amp; location and the supporting accountability arrangements</b>  Organisational and legislative changes impact on the function which might affect the role and potential location within ABC		
<b>Management Response</b>		
<b>Responsible officer:</b>		<b>Implementation date:</b>

<b>R3: Training</b>		<b>Priority 2: High</b>
<b>Implement training programme tailored to role &amp; contact levels</b>  Training, tailored to the role occupied, will demonstrate organisational commitment to safeguarding and fulfil mandatory timing requirements for some key officers.		
<b>Management Response</b>		
<b>Responsible officer:</b>		<b>Implementation date:</b>

# MID KENT AUDIT

<b>R4: Alignment of Policy &amp; Procedure</b>		<b>Priority 3: Medium</b>
<b>Align staff policies with safeguarding policies &amp; procedures</b>		
Key requirements must be the same in both areas of operation		
<b>Management Response</b>		
<b>Responsible officer:</b>	<b>Implementation date:</b>	

<b>R6: Records</b>		<b>Priority 2: High</b>
<b>Develop and maintain a secure means of recording referrals and associated information</b>		
The authority should have the capability to monitor and analyse incidents, also to assess resource implications		
<b>Management Response</b>		
<b>Responsible officer:</b>	<b>Implementation date:</b>	

<b>R5: Reporting</b>		<b>Priority 2: High</b>
<b>Develop and implement an appropriate reporting regime</b>		
Accountability & organisational mainlining would be enhanced and demonstrated by a formal reporting process.		
<b>Management Response</b>		
<b>Responsible officer:</b>	<b>Implementation date:</b>	

# MID KENT AUDIT

## Appendix I: Audit Brief

### About the Governance Area

Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled. Broader than just financial controls, it is also concerned with how the Council maintains legal compliance and seeks to arrange its operations in order to achieve its objectives.

The Council has a statutory responsibility for safeguarding vulnerable adults and children under [section 11 of the Children Act 2004](#). The Council works alongside Kent County Council and the Kent Children's Safeguarding Board ([KCSB](#)).

At Ashford the Chief Executive has ultimate responsibility, with delegated responsibility to Heads of Service, in particular the Heads of Cultural Services, Housing and Personnel. There is a formally designated Senior Officer to advise the Council on issues and procedures relating to the protection of children, young people & vulnerable adults, and a lead councillor for safeguarding and promoting the welfare of children.

The Safeguarding Children Policy and Procedures (SCPP) set out the Council's responsibilities. The SCPP apply to all staff who work with children and young people on behalf of ABC in any capacity and relates to children & young people under 18 years old and statemented young people under 25 years old. The Kent & Medway Multi Agency Adult Protection Policy, Protocols & Guidance (KMMAAP) set out the multi agency protocols with regard to adults.

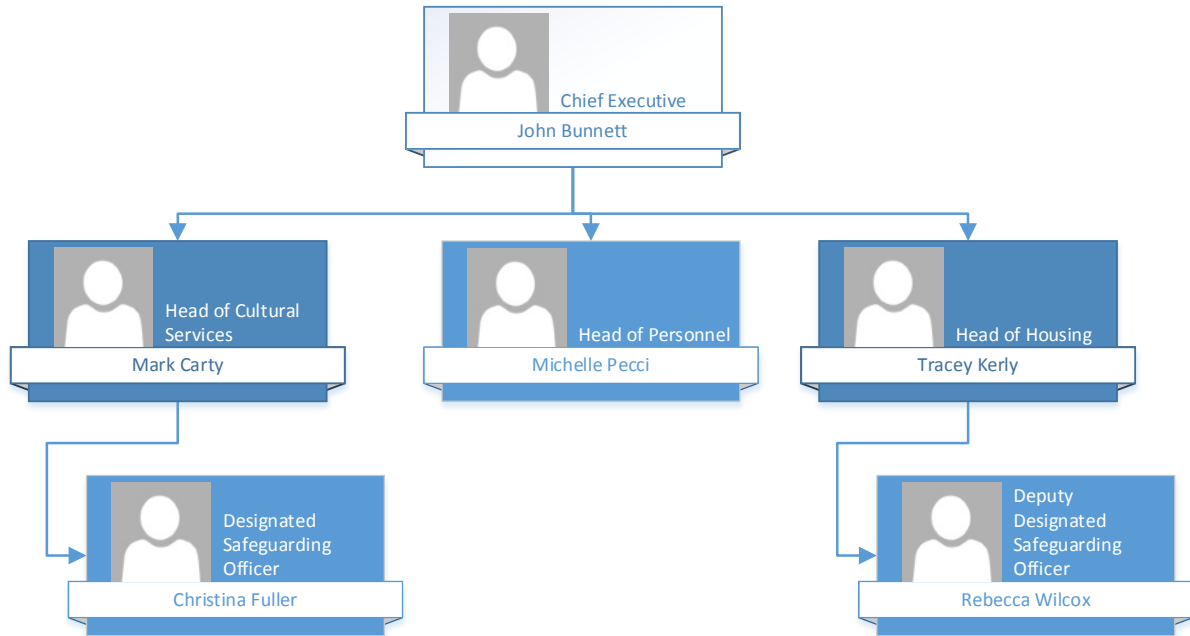
Where the Council works with, commissions or grant funds other organisations which come into contact with children, they must have safeguarding children's arrangements in place that meet the main themes in the SCPP. Through successful operation of these procedures the Council aims to:

- Meet its legal obligations,
- Promote children's welfare and protect them from potential abuse, and
- Protect staff and volunteers from potential false allegations.



# MID KENT AUDIT

## Responsibility Structure Chart



## About the Audit

This audit is a **corporate governance review** meaning that we will focus on how the Council manages the risks associated with this area, and uses governance to achieve its objectives. In particular we will examine:

- Safeguarding Policy & Procedures (children and adults)
- Multi Agency Policy & Procedures
- Roles, responsibilities and accountability
- Recruitment & Training
- Non Staff arrangements
- Allegation Handling Procedures
- Service Development
- Information Sharing & Partnerships
- Safeguarding Referrals
- Section 11 compliance returns
- Record keeping procedures

# MID KENT AUDIT

## Audit Objectives

1. To assess the adequacy of the governance arrangements in place to enable the Council to satisfy its statutory obligations for safeguarding.
2. To establish whether safeguarding training, recruitment and staff checks are carried out in compliance with statutory requirements and safeguarding policies.
3. To establish whether safeguarding incidents are dealt with and reported in accordance with statutory requirements and the safeguarding policies.

## Audit Testing

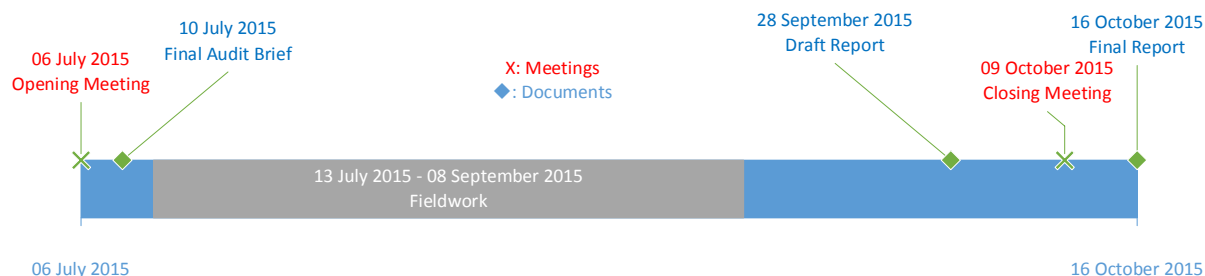
1. Establish the currency, clarity and availability of the Councils' Safeguarding Policies (children & adults)
2. Assessment of the roles, responsibilities, resources and reporting lines against safeguarding policies
3. Confirm through discussions with key officers procedures are clear and understood
4. Establish, through testing of a sample, that matters raised are treated in line with the Safeguarding Policy and statutory requirements.
5. Establish, through review of a sample of records, staff have appropriate training.
6. Confirm, through reviewing a sample of recent recruitments, the Council has appropriately taken safeguarding considerations in account.
7. Confirm, through review of a sample, that current staff have been checked (for example via DBS) consistent with their role and local policy requirements.
8. Confirm, through review of a sample, that non-Council staff (as defined in local policies) have had their status appropriately verified.

## Audit Resources

Based on the objectives, scope and testing identified we expect this review will require **16 days** of audit resource.

# MID KENT AUDIT

## Audit Timeline



The gap between end of fieldwork and issue of draft report is to account for short periods of officer and auditor annual leave. **NB: Timeline will be further changed by the time of final report to reflect timing of discussions around next steps**

## Council Resources required by audit/Key audit contacts

Key Contacts	
Christina Fuller	Designated Safeguarding Officer (Cultural Services)
Rebecca Wilcox	Deputy Designated Safeguarding Officer (Housing Services)

Documents required	
Annual self-assessment returns (last 3 years)	All policies detailed in section 12 of the SCPP
Kent & Medway Child Protection Procedures	Service Plans for relevant services
Contracts/SLAs (sample)	Information distributed to service providers
Recruitment records (sample)	Training records (sample)
DBS records (sample)	Referrals records (sample)

# MID KENT AUDIT

## Appendix II: Assurance & Priority level definitions

### Assurance Ratings

Full Definition	Short Description
<p><b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p><b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p><b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

# MID KENT AUDIT

## Appendix III: Section 11 Self Assessment Tool (April 2014)

STANDARD	COUNCIL SELF ASSESSMENT	PEER REVIEW ASSESSMENT
S1 Senior Management commitment to the importance of safeguarding and promoting children's' welfare	MET	PARTIALLY MET
S2 A clear statement of the agency's responsibilities toward children is available for all staff	MET	PARTIALLY MET
S3 A clear line of accountability within the organisation for work on safeguarding & promoting the welfare of children	MET	NOT MET
S4 Service development takes account of the need to safeguard & promotes welfare and is informed by the views of children & families.	MET	PARTIALLY MET
S5 Staff training on safeguarding and promoting the welfare of children for all staff working with or in contact with children & families, depending on the agency's primary functions.	MET	MET
S6 Safer Recruitment	MET	PARTIALLY MET
S7 Effective inter agency working to safeguard & promote the welfare of children.	MET	PARTIALLY MET
S8 Information Sharing	MET	PARTIALLY MET
	8/8 MET	1/8 MET 1/8 NOT MET 6/8 PARTIALLY MET

# MID KENT AUDIT

## Recommendation Ratings

**Priority 1 (Critical)** – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

**Priority 2 (High)** – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

**Priority 3 (Medium)** – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

**Priority 4 (Low)** – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

**Advisory** – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

**Agenda Item No:** 5  
**Report To:** Audit Committee  
**Date:** 1 December 2015  
**Report Title:** Annual Audit Letter  
**Report Author:** Lisa Robertson ( Engagement Manager, Grant Thornton UK)  
Paul Naylor – covering report (Deputy Chief Executive)



**Summary:**

This covering summary introduces the attached Annual Audit Letter from Grant Thornton (external auditors). Lisa Robertson, external audit manager, will be present to introduce and take question on the report.

This year's annual letter is short, containing key messages to the council. It reiterates the positive comments made by the external auditors at the last meeting, when unqualified opinions on the council's financial statements and the arrangement for 'value for money' opinion were reported. A report setting out the results of audit certification work on the housing benefit grant claim will be reported at a later date, though the work is completed and an unqualified opinion will be given.

Audit fees payable are currently the same as the audit plan, with the possibility of a variation for the housing benefit claim audit.

The report contains two recommendations that mirror comments made at the last meeting when considering the audit of the financial statements. Both points are in hand and are being taken into account by the Head of Finance in the planning for next year's earlier closedown.

**Key Decision:** Not applicable

**Affected Wards:** none specifically

**Recommendations:** **The Committee is asked to note the external auditors annual audit letter.**

**Policy Overview:** External audit is a statutory requirement and the work of the auditors, including the advice papers received forms an important part of the council's governance and ongoing development.

**Financial Implications:** none specifically

**Other Material Implications:** The matters referred to in Grant Thornton's national reports will help to inform officers future reports and members' decisions over the coming months

**Contacts:** Lisa.roberston@uk.gt.com  
Paul.naylor@ashford.gov.uk





# The Annual Audit Letter for Ashford Borough Council

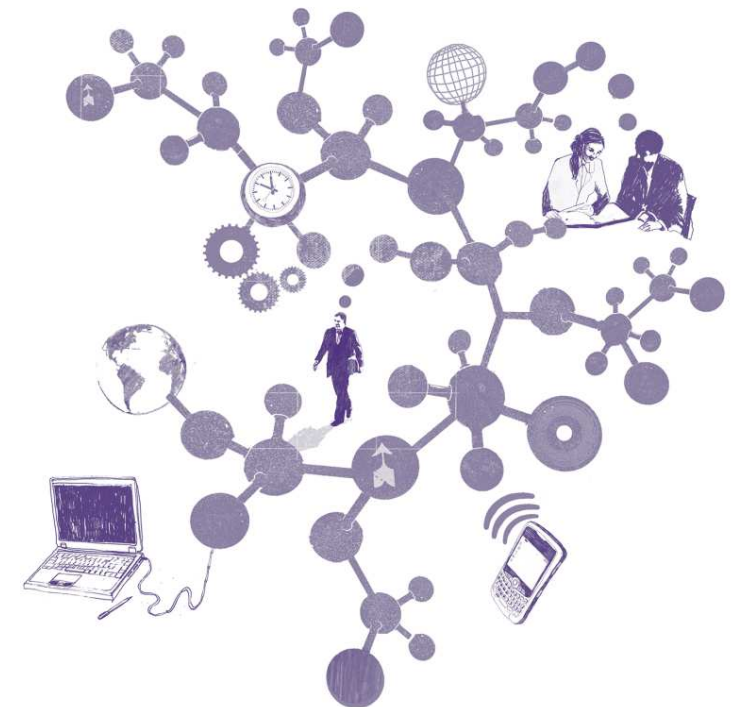
**Year ended 31 March 2015**

October 2015

**Emily Hill**  
Engagement Lead  
T 020 7728 3259  
E [Emily.Hill@uk.gt.com](mailto:Emily.Hill@uk.gt.com)

**Lisa Robertson**  
Engagement Manager  
T 020 7728 3341  
E [Lisa.E.Robertson@uk.gt.com](mailto:Lisa.E.Robertson@uk.gt.com)

**Neil Robertson**  
Engagement In-Charge  
T 020 7383 5100  
E [Neil.A.Robertson@uk.gt.com](mailto:Neil.A.Robertson@uk.gt.com)



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# Contents

<b>Section</b>	<b>Page</b>
1. Key messages	3
<b>Appendices</b>	
A Key issues and recommendations	5
B Summary of reports and audit fees	6

# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Ashford Borough Council (the Council) for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in June 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<b>Financial statements audit (including audit opinion)</b>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 29 September 2015 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"><li>• the Council produced a good set of accounts supported by working papers. Staff responded quickly and helpfully to queries;</li><li>• the accounts were adjusted to reflect the recommended uplift by the valuer for assets valued using Depreciated Replacement Cost. This resulted in an increase in value on the balance sheet of £2.5m; and</li><li>• a number of other adjustments to the financial statements were identified to improve the presentation and disclosures of the financial statements.</li></ul> <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>

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## Key messages continued

<b>Certification of housing benefit grant claim</b>	We are currently completing our work to certify the Council's 2014/15 housing benefit grant claim by the 30 November 2015 deadline. We will report our findings on the Annual Certification Report to the Audit Committee.
<b>Audit fee</b>	Our fee for 2014/15 was £80,415, excluding VAT which was in line with our planned fee for the year and prior year. Further detail is included within appendix B.

# Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Looking ahead, the statutory deadline for sign off audit opinions moves forward to 31 July in 2017/18. The Council will need to produce draft statements by 31 May.</p> <p><b>Recommendation:</b> The Council should consider arrangements required to bring forward the timescale for closure of the financial statements, in readiness for statutory early closure in 2017/18.</p>	High	<p>The 2014/15 Statement was prepared by 31 May therefore we are confident that this deadline can be achieved for the 2015/16 Statement. The team already has highlighted areas where closing processes can be brought forward further. A meeting with the Accountants has been set to further look at ways to further reduce the timetable.</p> <p>Responsible office: Head of Finance Due date: 2015/16</p>
2.	<p>Our sample testing of accruals identified the need for improvements in the process on which they are based. With the move towards earlier closedown, the use of accruals is expected to increase and must be supported by a robust process.</p> <p><b>Recommendation:</b> The Council must ensure there is a clear process for calculating accruals across all departments and that these are fully supported by sufficient evidence.</p>	Medium	<p>With the need to bring forward the closing process it is important to understand that there will be an increased level of reliance on estimates and assumptions when closing the accounts. We need to strike a balance between achieving the faster closing deadline whilst ensuring that the accounts are materially correct.</p> <p>We have reviewed our processes and are looking to bring forward the deadline for accruals however to offset this increased risk we are looking to introduce:</p> <ul style="list-style-type: none"> <li>• Training for staff and managers involved in the closure of accounts, including what is required as evidence of accrual estimates</li> <li>• Additional process for checking duplicate transactions after year end</li> <li>• Additional process for checking payments made in April, ensuring relevant accruals are in place (done this year looking at material amounts)</li> </ul> <p>Responsible office: Head of Finance Due date: 2015/16</p>

# Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

## Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	80,415	80,415
Housing benefit grant certification fee	14,200	14,200*
<b>Total audit fees</b>	<b>94,615</b>	<b>94,615*</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	
Certification of pooling of housing capital receipts return	Tbc*
<b>Non-audit related services</b>	Nil

\*This certification work is on-going. The final fee will be reported to the Audit Committee in the year in our annual certification report n completion of this work.

## Reports issued

Report	Date issued
Audit Plan	June 2015
Audit Findings Report	September 2015
Certification Report	Planned December 2015
Annual Audit Letter	October 2015



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**Agenda Item No:** 6  
**Report To:** AUDIT COMMITTEE  
**Date:** 1 DECEMBER 2015  
**Report Title:** INTERIM INTERNAL AUDIT REPORT 2015/16  
**Report Author:** Rich Clarke



**Summary:** The report sets out progress against the agreed audit plan for the first half of 2015/16, including detail on audit findings and commentary on wider issues on audit and the service.

**Key Decision:** No

**Affected Wards:** All

**Recommendations:** **1. The Audit Committee notes and comments as appropriate on the interim report.**

**Policy Overview:** Not Applicable

**Financial Implications:** Not Applicable

**Risk Assessment** No

**Equalities Impact Assessment** No

**Other Implications:** Not Applicable

**Exemptions :**

**Background Papers:** Interim Internal Audit Report 2015/16

**Contacts:** rich.clarke@midkent.gov.uk – Tel: (01233) 330442



## **Report Title: Interim Internal Audit Report 2015/16**

### **Purpose of the Report**

1. As in previous years, we provide Members with an 'interim' report halfway through the year summarising our findings to date against the audit plan agreed in March. This report therefore is to update Members as to our findings and allow for discussion and comment both on those findings, and the associated updates on audit, corporate governance and risk management and the audit service developments.

### **Background**

2. At the March 2015 meeting of this Committee Members gave outline approval for our four year strategic plan and specific approval to our 2015/16 audit plan. That plan presented our work in a new way, moving on from a simple list of block projects to provide more information to Members about the risk assessment and process underpinning our selection of areas to subject to audit focus, as well as the full scope of our work beyond reported projects. This allowed for Member comment and consideration (and, now, reporting against) our work in, for example, supporting development of risk management.
3. The report therefore takes Members through our work assessing the Council's internal control, corporate governance and risk management and includes sections describing our work following up recommendations and considering the Council's counter fraud arrangements. The report also includes commentary on the progress of the audit service more generally.

### **Risk Assessment**

4. Not applicable.

### **Equalities Impact Assessment**

5. There are no proposals made in the report that require an equalities impact assessment.

### **Other Options Considered**

6. No other options for reporting were considered, as providing an interim report has been previous practice expected by the Committee.

## **Consultation**

7. The audit findings reported in the document were discussed and agreed with relevant officers (audit sponsors) prior to finalisation.

## **Implications Assessment**

8. Not Applicable

## **Handling**

9. Not Applicable

## **Conclusion**

10. The report presents for Member comment and enquiry the results and progress of the audit service against agreed plans at an interim point in the year. Our full report and findings will come to Members as part of our Annual Report that we plan to complete by June 2016 to inform the Council's Annual Governance Statement.

## **Portfolio Holder's Views**

11. The relevant Portfolio Holder, Cllr Neil Shorter, is a member of the Audit Committee.

**Contact:** Rich Clarke

Tel: (01233) 330442

**Email:** [richard.clarke@ashford.gov.uk](mailto:richard.clarke@ashford.gov.uk) or [rich.clarke@midkent.gov.uk](mailto:rich.clarke@midkent.gov.uk)

**MID KENT AUDIT**

**Interim  
Internal Audit  
Report  
2015/16**

**Ashford Borough  
Council**



## Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>1</sup>.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:  
  
*"[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".*
3. The currently operating standards are the [Public Sector Internal Audit Standards](#) published by HM Government for effect from April 2013 across the UK public sector.
4. In addition to the public sector standards, an internal audit service must also abide by the sector's *Code of Ethics* and International Professional Practices Framework. These codes, a requirement of all internal audit services across public, private and voluntary sectors, are compiled by the Institute of Internal Auditors.
5. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
  - Internal Controls: Including financial and non-financial controls.
  - Corporate governance: Including effectiveness of measures to counter fraud and corruption, and
  - Risk Management: Principally, the effectiveness of the Council's risk management framework.
6. This report provides an update to the Committee across all three areas covered in the opinion and the performance of the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

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<sup>1</sup> This is the definition of internal audit included within the Public Sector Internal Audit Standards

## Internal Control

7. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
8. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2015.

## Audit Plan Progress

### *Productive Audit Days*

9. In 2015/16 we shifted the main metric of our audit plan away from a fixed number of audit projects and instead towards a total number of productive days per year. This has considerable advantages in giving us a flexible basis to help keep our plans up to date and appropriately responsive to the Council's developing risks and priorities.
10. Up to the end of quarter 2, our progress against the plan in terms of productive days was:

Type of work	Plan Days	Q1/2 Days	Q1/2 %	Forecast Y/E	Forecast %
Assurance Projects	285	71	25%	286	100%
Other Work	85	30	35%	78	91%
<b>Total</b>	<b>370</b>	<b>101</b>	<b>27%</b>	<b>364</b>	<b>98%</b>

11. Progress to date reflects that the plan is relatively back loaded (in order to create space in the June-September period for external audit to undertake their work on the Council's financial statements). Also, as noted in the service update later in this report, we have during the early part of the year been carrying vacancies including maternity leave that are now covered by the team coming up to full establishment in November 2015. Consequently we have capacity in place to deliver the expanded workload later in 2015/16 hence the current forecast (which represents budgeted days available to complete work not yet complete). On current forecasts we will have a small amount of the original contingency budget left over for 2016/17.

## Audit Review Findings to Date

12. We have completed to final report stage so far a total of six audit projects, three of which were completed early enough in the year to have featured in our annual report to this Committee in July 2015. Our output from those reports – on GIS (Mapping), Council Tax and Project Office (Contract Management) – is included in that annual report.

13. Concentrating therefore on the three further reports issued in the period from July, we include below an extract from each report. We are pleased to report that officers have accepted our findings and begun work towards the agreed recommendations. We will follow up implementation of recommendations as noted below.
14. In addition to reports that have reached finalisation, we include in appendix II a summary of work in progress. Note that, in line with the request of this Committee in July 2015, as a 'weak' assurance report, *Safeguarding* is also considered separately at this meeting.

	Review Type	Title	Assurance Rating
1	Service Review	Housing Maintenance	<b>STRONG</b>
2	Core Finance Review	Housing Rents	<b>SOUND</b>
3	Corporate Governance	Safeguarding	<b>WEAK</b>

### ***Housing Maintenance***

15. We conclude based on our audit work that the service has **Strong** controls to manage its responsive repairs service and mitigate risk.
16. Our work found that the procedures for order raising and payment of works are well established and properly observed by staff. The service appropriately defines and applies both pre and post inspection arrangements. Our work covering aspects of contract monitoring confirmed compliance with contractual provisions. We also note the low number of defaults issued under the contracts in place (approximately 1/1000 orders) and the high levels of customer satisfaction (97% satisfaction for 2013/14)

### ***Housing Rents***

17. We conclude based on our audit work that the service has **Sound** controls for the collection and accounting of housing rents.
18. The Council has in place appropriately designed procedures and controls to accurately receive and account for income from housing rents. This includes suitable reconciliation processes which are effective in ensuring the financial integrity of the housing rents system. We found that the different strands of property type managed by the service are accurately classified within the Housing Management system.
19. Our work reflects positive results from a wide range of testing against the processes and procedures in place.

## ***Safeguarding***<sup>2</sup>

20. We conclude based on our audit work that the Safeguarding function has **Weak** controls to control its risks and support its objectives.
21. The audit focussed on the Council's management of the risks associated with operation of the Safeguarding function. We examined similar areas to the statutory assessment tool's 8 standards and aimed to assess the effectiveness of the arrangements for safeguarding children. Our findings are consistent with a 2014 peer assessment undertaken by the Kent Children's Safeguarding Board against the Council's statutory responsibilities under Section 11 of the Children Act 2004. Most (6 of 8) areas in that assessment were graded as "partially met" at best because of out of date policies and procedures and limited training rollout. We also note that the peer assessment differed considerably from the Council's own assessment recording all standards as 'met'.
22. The Council established a working group in response to the peer review, aimed at implementing improvements ahead of a 2016 further review. While the Council has made some progress, overall advances are limited especially considering revised processes will need to be demonstrably embedded by the time of re-assessment.
23. We also examined governance arrangements, training, recruitment aspects, and referrals. We found that the current Council policy and procedures are untested since Housing staff are routinely using external protocols rather than Council procedures. This means that, although statutory requirements are met, the Council is not itself tracking or gathering information on referrals efficiently or comprehensively.

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<sup>2</sup> Note that our work on Safeguarding is reported as a separate agenda item for this meeting, containing the report in full. The full report does not yet contain a completed management action plan and is therefore not 'final' in the normal sense of our reports, but Management have accepted its content and findings.

## Follow-up of Internal Audit Recommendations

24. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finalise our reporting. We report progress on implementation to Directors each quarter, including noting where we have had reason to revisit an assurance rating (typically when a service has successfully implemented key recommendations) and raising any matters of ongoing concern.
25. Our most recent round of reports covered recommendations due for implementation on or before 30 September 2015. We are pleased to note those reports confirm there are no recommendations outstanding for action beyond their agreed implementation date. This includes a few instances where, after request from the service and having considered the residual risk of delay posed to the Council, we have revised implementation date.
26. In the table below project titles shown in **bold type** are those that originally received an assurance rating of **weak** or **poor** (or the 2013/14 nearest equivalent assurance level). Note also that this table excludes the handful of projects completed in 2014/15 which carried no assurance rated recommendations for improvement.

Project	Agreed Actions	Falling due by 30/9/15	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
<b>VAT</b>	16	16	16	0	0
Health & Safety	11	11	11	0	0
<b>Business Continuity</b>	9	9	9	0	0
<b>Safeguarding</b>	6	0	0	0	6
<b>Banking Arrangements</b>	5	2	2	0	3
Cemeteries	5	2	2	0	3
Project Office	5	5	5	0	0
Car Leasing	4	3	3	0	1
Planning Enforcement	4	3	3	0	1
Creditors	3	2	2	0	1
<b>ICT Disaster Recovery</b>	2	2	1	1	0
Declarations of Interest	2	2	2	0	0
Housing Rents	1	0	0	0	1
<b>TOTAL</b>	<b>73</b>	<b>57</b>	<b>56</b>	<b>1</b>	<b>16</b>
		<b>78%</b>	<b>77%</b>	<b>1%</b>	<b>22%</b>

27. We note considerable progress made by managers in addressing the issues identified by our reports. With almost all 57 due recommendations implemented as agreed, the Council is 85% of the way to full implementation –on track for overall delivery. However, there is one significant recommendation yet to be addressed on IT disaster recovery (see comment below).



28. Of the 12 audit projects follow up so far in 2015/16, five originally received an assurance rating of **weak** or **poor** (or the 2013/14 nearest equivalent assurance level). We have previously advised Members in our 2014/15 annual report that 2 of these (VAT and Business Continuity) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **sound** (or the 2013/14 nearest equivalent). Of the projects yet to be similarly reassessed:

#### *Banking Arrangements*

29. The three highest priority recommendations arising from the review all related to the Council retendering its banking services, such as formalising its arrangements through contract and improving debit and credit card handling. Consequently we will revisit these recommendations and revisit the assurance rating once that tender process is complete.

#### *IT Disaster Recovery*

30. The key recommendation of this report was that the Council should undertake a test of its disaster recovery arrangements, having not performed a test for some considerable time.
31. That test was originally scheduled to have occurred before 30 June 2015 but progress was hampered by technical issues which the IT Operations Manager was working to resolve. We note that the issue is being progressed – with a test scheduled before 31 December – but are concerned that continued delay in implementing this recommendation is exposing the Council to excessive risk in continuing to have untested IT disaster recovery arrangements.

#### *Safeguarding*

32. This report was only recently issued, and is discussed in more detail earlier in this report.

#### *Next Steps*

33. We will follow up actions due after 30 September, including those arising as we complete our 2015/16 audit plan, later in the year. We will provide a final position to Members as part of our Annual Review in June 2016.

# Corporate Governance

34. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
35. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
36. In October 2015 CIPFA<sup>3</sup> and SOLACE<sup>4</sup> published a draft response to the consultation which had been open over the summer looking to replace the existing Good Governance Framework for Local Government which has been in place since 2006. This revised guidance, which the Council must follow in compiling its 2016/17 Annual Governance Statement, is based around seven key principles:
  - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
  - Ensuring openness and comprehensive stakeholder engagement
  - Defining outcomes in terms of sustainable economic, social and environmental benefits
  - Determining the interventions necessary to optimise the achievement of the intended outcomes
  - Developing the entity's capacity, including the capability of its leadership and the individuals within it
  - Managing risks and performance through robust internal control and strong public financial management
  - Implementing good practices in transparency, reporting and audit to deliver effective accountability.
37. In the new year we will undertake a review considering the Council's readiness for reporting against these Governance principles.

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<sup>3</sup> The Chartered Institute of Public Finance & Accountancy; the body charged by Government with setting much of the rules around local government accounting and good governance.

<sup>4</sup> The Society of Local Authority Chief Executives; co-commissioned with CIPFA to create and monitor the Good Governance Framework for Local Government.

## **Counter Fraud & Corruption**

38. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking distinct activities to assess and support the Council's arrangements.

### **Investigations**

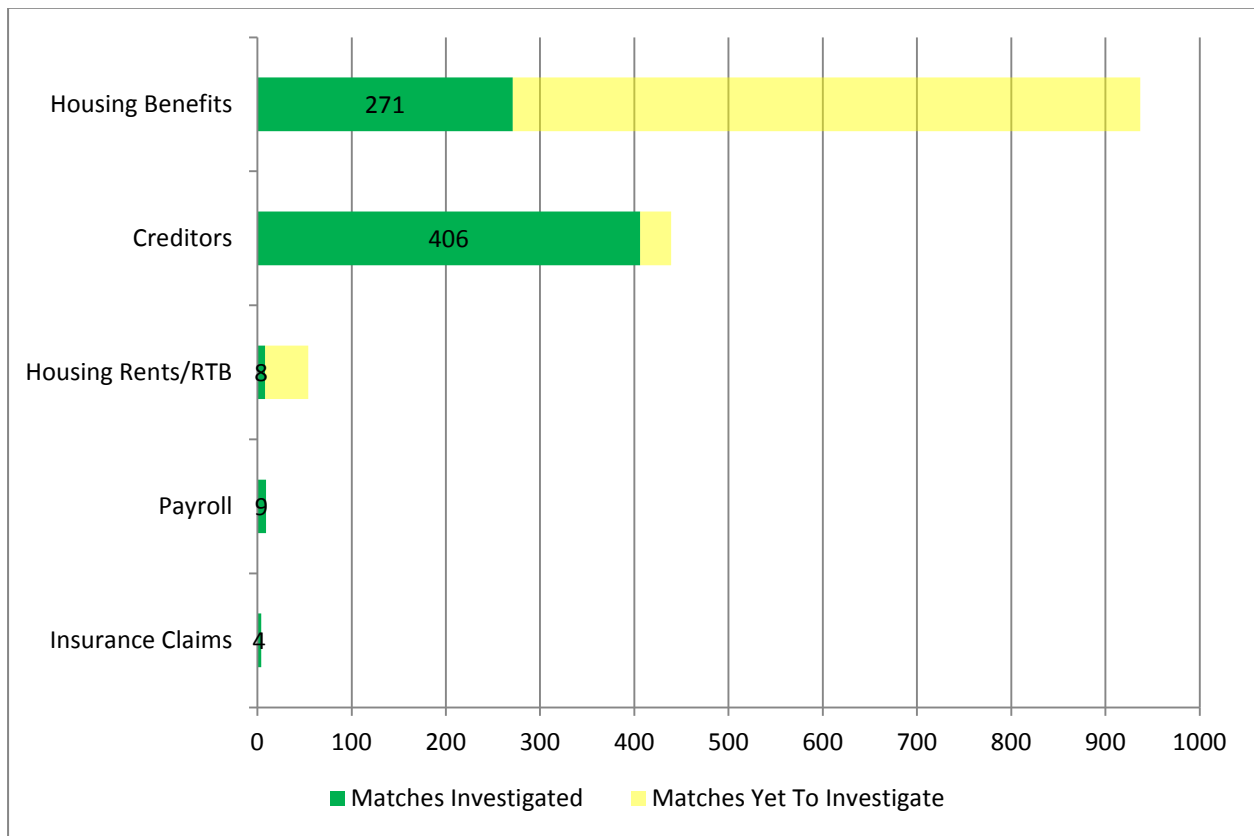
39. During the first half of 2015/16 there have been no matters raised with us that required investigation.

### **Whistle-blowing**

40. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. During 2015/16 so far we have received no such declarations.

### **National Fraud Initiative**

41. We have continued so far in 2015/16 as co-ordinator of the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data. Since March 2015, the NFI exercise has been administered by the Cabinet Office.
42. The current NFI exercise has been releasing data in tranches since January 2015 and includes the following services:
- Housing Benefits (937 total matches)
  - Housing Rents/Right To Buy (54 total matches)
  - Creditors (439 total matches)
  - Payroll (9 total matches)
  - Insurance Claimants (4 total matches)
43. Two further categories (Residents' Parking and Licensing) returned no matches for the Council.
44. The graph below plots progress to date. Note that at present the matches examined have identified 5 cases of fraud or error valued at £5,901 in total. Cabinet Office guidance is that all matches should be investigated within the two year cycle of NFI data (so, by January 2017).



45. As the Council continues to establish its in-house Counter Fraud team, it has decided from January 2016 that team will take the lead with audit reverting to our core role in assessing the effectiveness of the Council’s response. Therefore future reports to this Committee on progress on and findings from investigating NFI matches will come as part of the Counter Fraud Team’s annual update.

**Attempted Frauds**

46. During this year we have also been made aware of an attempted fraud at another council involving the use of a ‘spoofed’ email account purporting to be that of a Council employee and requesting a bank transfer. Our investigation could not identify the culprit – ‘spoo’ emails are created easily enough and very difficult to trace – but we did examine the Council’s controls and investigated to determine whether any similar attempts had been successful and undetected.

47. We did not identify any further such attempts which, coupled with successful operation of financial controls, led us to identify this as a low fraud risk. Consequently, we have provided advice to finance teams on remaining vigilant and have reported the matter to the police but plan no continuing action unless there are further developments.

## Risk Management

48. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
49. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
50. In September 2015 this Committee agreed to adopt a new approach to risk management at the Council. This paper, including significant contribution from Mid Kent Audit, was the culmination of six months enquiry and research with both member and officer workshops investigating the Council's risk appetite and objectives from risk management.
51. The approach is currently underway working towards establishing a *comprehensive risk register* that has three major threads:

### *Service risks*

52. A significant weakness of the Council's previous approach was a lack of consistency in evaluating, recording and reporting risks originating from within services. While more traditional approaches tended to see such matters as purely operational, there are plenty of examples of such issues, if not effectively managed, causing significant disruption to organisations as a whole.
53. To remedy this we have been undertaking risk management workshops with managers across the Council to provide training on the framework and collect information that will inform the risk register.

### *Project risks*

54. A separate key source of risk is the Council's corporate projects. As required by the Council's project management framework each project will have compiled and maintained its own risk register and work is currently underway drawing these risks within the overall register.

### *Corporate risks*

55. Sitting across the service risks are those issues that could impede the Council's ability to achieve its corporate objectives. To help identify these risks the Council's Management Team have been considering key risks against the new corporate plan. The outcome will be reported through risk management reporting.

*Next steps*

56. Once the various threads are drawn together the Council will be in a position to compile and publish the *Comprehensive Risk Register*. From this officers will extract a *summary risk register* highlighting the most prominent risks and current measures to address them, along with a report discussing key themes and messages from the broader risk register. This will be reported to this Committee in Spring 2016.
57. In the longer term, risk management will be incorporated into both the Council's service planning regime and used to shape and scope our audit plans and how we plan and support individual audit projects.

## Mid Kent Audit Service Update

58. After a period of disruption encompassing the departure of a long serving manager and (temporarily) losing team members to maternity leave, Mid Kent Audit is now fully resourced going into 2016.
59. This period has also encompassed a restructure, intended to provide greater capacity at all levels of the service but in particular at a management level to increase our ability to respond rapidly to authorities changing risks and priorities and deliver focussed, strategic reviews. This Committee has already started to make use of that capacity by commissioning a specific piece of work examining whistleblowing arrangements.
60. We include at appendix III the revised team structure, but key points of development:
- **Deputy Head of Audit Partnership:** This role brings advantages in providing an additional senior point of contact to help cover our four authorities and also opens up the possibility of internal independence safeguards that will also us to play a more prominent role in service development where invited to do so (on risk management, for example). We're pleased to confirm that *Russell Heppleston* was promoted into this role in July 2015.
  - **Audit Managers:** We have reshaped the audit manager role to move it away from principally quality assurance towards more engagement in direct service delivery. This will include completing additional consultancy work both responding to emerging risks at individual authorities but also taking a broader comparative look across the partnership. Again, we're very pleased that these roles have enabled us to identify and grow expertise within the team; the new managers are *Frankie Smith* (Swale and Tunbridge Wells) and *Alison Blake* (Maidstone and Ashford) both of whom were previously Senior Auditors.
  - **Audit Team Administrator<sup>5</sup>:** Since we began collecting detailed timesheet information in July 2014 we have identified a range of administrative tasks undertaken by our auditors that could be undertaken by a team administrator to free up their time to progress audit projects. Following the restructure we have been able to recruit into this role, and have been joined by *Louise Taylor* who is based at Maidstone.
61. We also continue to pursue development within the audit team to ensure we continue to offer a broad and deep range of skills and experience to our partner authorities. Since our last update we have had team members achieve a Professional Diploma in Internal Audit from the Institute of Internal Auditors (IIA), professional qualifications from the Institute

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<sup>5</sup> This role is currently operating on a trial basis.

of Risk Management and professional counter-fraud qualifications from CIPFA at both Specialist and Technician level. On these final qualifications, Mid Kent Audit has become one of the first audit services in local government to feature among its team both Specialist and Technician qualified members, which will provide significant assistance as we look to help authorities develop their counter fraud approach.

62. Also Frankie Smith, one of our new Audit Managers, completed her qualification with the IIA and is now a Chartered Internal Auditor. This brings to four the number of people within the team who hold CCAB<sup>6</sup> equivalent qualifications.

## Quality and Improvement

63. Members will recall earlier in 2015 when Mid Kent Audit was assessed by the IIA as fully conforming with Public Sector Internal Audit Standards. However, these Standards are not a fixed point, in fact one of the core requirements is for audit services to seek continuous improvement.
64. In a formal sense this is driven by guidance recommended by the Internal Audit Standards Advisory Board (IASAB) – a body including Mid Kent Audit’s Head of Audit (Rich Clarke) as the England Local Government representative. Through that route we are aware that, from April 2016, local authority audit services must also comply with the IIA’s International Professional Practice Framework. This Framework sets common standards across audit globally in public, private and voluntary sectors.
65. Although the Framework will not be mandatory until next year, we have undertaken an evaluation of our service and are confident we are already operating in conformance. We set out below the ten key principles of the Framework alongside a note on their local implementation:

Principle	Commentary
Demonstrates integrity	The IIA Code of Ethics is embedded in our Audit Charter and our Audit Manual.
Demonstrates competence and due professional care	Our Audit Manual and methodology are compliant with Standards and monitored by a managerial review process for all audit projects.
Is objective and free from undue influence	Our independence is safeguarded by our Audit Charter and reaffirmed and reconsidered in planning each individual piece of audit work we undertake.

<sup>6</sup> CCAB is the umbrella term for Chartered qualifications recognised by the Consultative Committee of Accountancy Bodies (CCAB) encompassing the major accounting and audit bodies in the UK. Such qualifications are the minimum requirement before an individual can hold a Head of Audit role according to the Public Sector Internal Audit Standards.



Principle	Commentary
Aligns with the strategies, objectives and risks of the organisation	Our audit planning is informed by the Council's strategic objectives and we consider individual service objectives and risks in each project.
Is appropriately positioned and adequately resourced	Our Audit Charter sets out our position in the authority and guarantees a right of access to Members. Members comment on our resourcing each year in approving our audit plans.
Demonstrates quality and continuous improvement	We operate a quality and improvement plan informed by current and upcoming developments in professional standards (such as the IPPF).
Communicates effectively	We have recently reviewed our reporting approach and structure and have received strong feedback on its clarity and relevance to Officers and Members.
Provides risk-based assurance	Our assurance ratings and recommendation priority levels are informed by the Council's key risks and focus on the continuing risks to the authority posed by the issues we identify in our work.
Is insightful, proactive and future focussed	We have recently expanded managerial capacity to further enhance our ability to offer proactive work, especially on emerging risks across the partnership.
Promotes organisational improvement	We have restructured our management team, in part, to allow us to undertake a greater role in directly supporting organisational improvement where invited to do so.

66. All of the Mid Kent Audit Management Team are grateful for the continuing efforts of the audit team who have worked extremely hard to first meet, then exceed the standards of our profession. These achievements and improvements in service standards would not have been possible without their continued commitment, determination and highest levels of professionalism.

## Performance

67. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Audit Board (with Paul Naylor as Ashford's representative) considers these measures at each of its quarterly meetings.

68. Below is an extract of the most recent such performance report. After a year of data collection to set a baseline, we are operating in 2015/16 to agreed performance targets. Although the targets are year-end measures, we are pleased to report we are already, in

most areas, performing at or near the stretch target level and will be looking to agree further improvement targets for 2016/17 early in the new year.

69. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.
70. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Outturn	2015/16 Target	Q2 2015/16
% projects completed within budgeted number of days	47%	60%	57%
% of chargeable days	75%	68%	66%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within agreed deadlines	41%	60%	57%
% draft reports within ten days of fieldwork concluding	56%	70%	65%
Satisfaction with assurance	100%	100%	100%
Final reports presented within 5 days of closing meeting	89%	90%	96%
Respondents satisfied with auditor conduct	100%	100%	100%
Recommendations implemented as agreed	95%	95%	96%
Exam success	100%	75%	100%
Respondents satisfied with auditor skill	100%	100%	100%

## Acknowledgements:

We would also like to thank Managers, Officers and Members for their continued support, assistance and co-operation as we complete our audit work during the year.

## Appendix I: Assurance & Priority level definitions

### Assurance Ratings 2015/16

Full Definition	Short Description
<p><b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any, recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p><b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p><b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

## Recommendation Ratings 2015/16

**Priority 1 (Critical)** – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

**Priority 2 (High)** – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

**Priority 3 (Medium)** – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

**Priority 4 (Low)** – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

**Advisory** – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

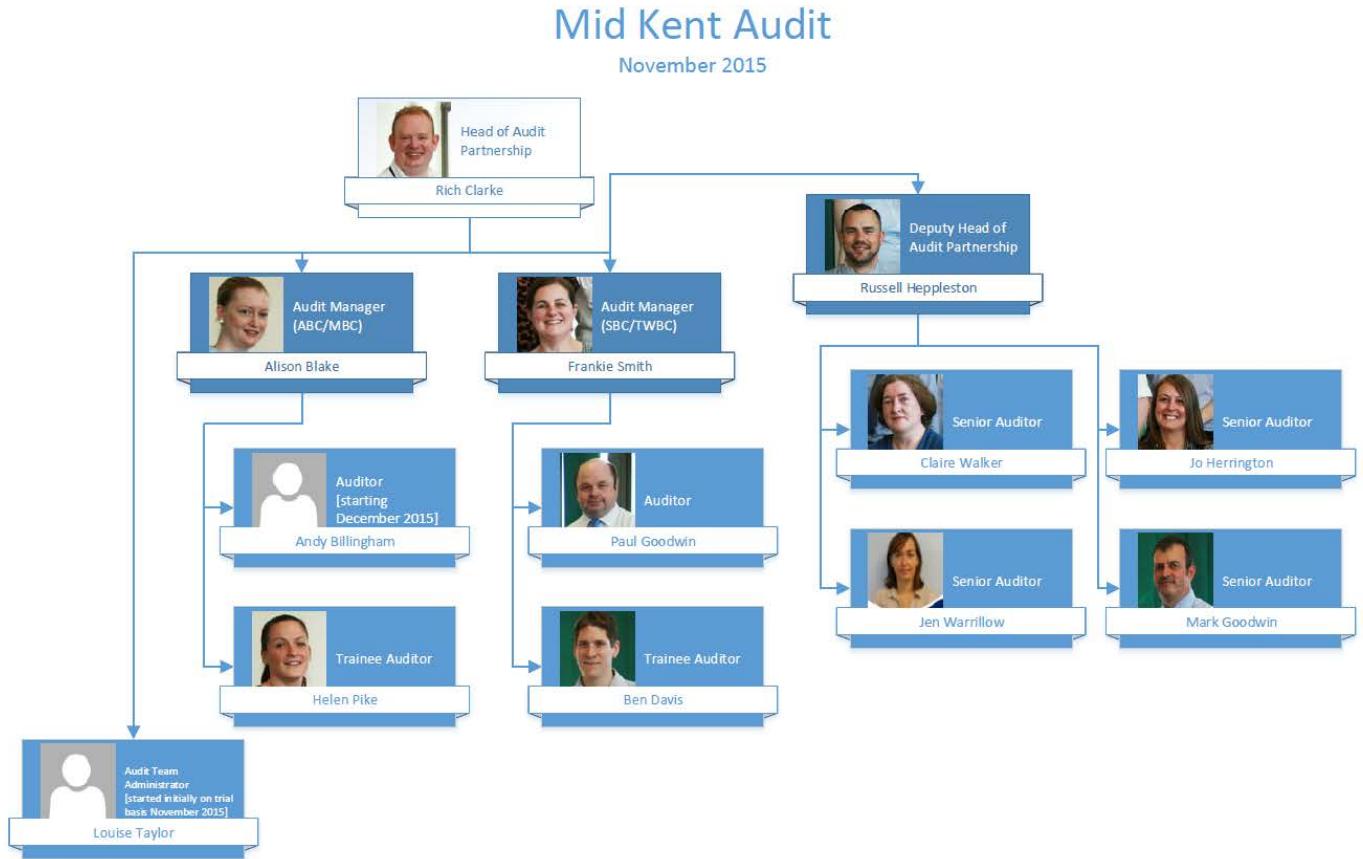
## Appendix II: Audit Plan Progress 2015/16, Projects Only (for interim report)

Project Title	Project Type	Planning	Underway	Complete	Rating
Housing Maintenance	SR			X	STRONG
Housing Rent	CFS			X	SOUND
Safeguarding <sup>7</sup>	CGR			X	WEAK
Homelessness	SR		X		
Data Protection	CGR		X		
ICT Technical Support	SR		X		
Parking	SR		X		
General Ledger Feeder Systems	CFR	X			
Corporate Projects Review	CGR	X			
Tourism	SR	X			
Procurement	CFS	X			
Payroll	CFS	X			
Sports Development	SR	X			
Street Cleansing	SR				
Training & Development	SR				
Democratic Services	SR				
Conservation	SR				
Payments & Receipts	CFS				
General Ledger Journals	CFS				
Property Management	SR				
Elections/Registration	SR				
Business Rates	CFS				
Corporate Governance Framework	CGR				
Building Control	SR				
Freedom of Information	CGR				

Project Types: CFS = Core Finance System  
 CGR = Corporate Governance Review  
 SR = Service Review  
 Adv = Consultancy/Advisory Work

<sup>7</sup> See comments earlier in this report on the status of our *Safeguarding* work.

# Appendix III: Mid Kent Audit Team Structure November 2015



To provide cover for two members of the team currently away on maternity leave we have engaged two contract auditors to deliver specific projects across the partnership.

**Agenda Item No:** 7  
**Report To:** Audit Committee  
**Date:** 01 December 2015  
**Report Title:** Annual Governance Statement – Progress on Remedying Exceptions  
**Report Author:** Nick Clayton, Policy and Performance Officer



<b>Summary:</b>	This report updates on the progress made towards the areas of review highlighted by the 2014-2015 Annual Governance Statement
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**Key Decision:** NO

**Affected Wards:** All

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

**Note progress made towards the areas of review highlighted by the Annual Governance Statement as detailed in this report**

**Policy Overview:** Each year the council must produce and approve an Annual Governance Statement (AGS). AGS are designed to summarise for members and residents the council's approach to governance and show how the council fulfils the principles for good corporate governance in the public sector.

**Financial Implications:** None

**Risk Assessment** N/A

**Equalities Impact Assessment** N/A

**Other Material Implications:**

**Background Papers:**

**Contacts:** Nicholas.Clayton@ashford.gov.uk – Tel: (01233 330485)

## **Report Title: Annual Governance Statement – Progress on Remediating Exceptions**

### **Purpose of the Report**

1. To update on the progress made towards the areas of review highlighted by the 2014-2015 Annual Governance Statement.

### **Issue to be Decided**

2. To note progress made towards the areas of review highlighted by the 2014-2015 Annual Governance Statement.

### **Background**

3. Each year the council must produce and approve an Annual Governance Statement (AGS). AGS are designed to summarise for Members and residents the council's approach to governance and show how the council fulfils the principles for good corporate governance in the public sector. The AGS needs to draw conclusions, based on evidence throughout the past year, about the effectiveness of the council's arrangements.
4. The 2014-2015 Annual Governance Statement (AGS) was agreed by the June meeting of the Audit Committee and identified two areas for continued work and review as follows:
  - The need for the Cabinet to agree a new corporate plan for Autumn 2015
  - Completion of work reviewing the Council's current risk management procedures
5. This report updates on the progress made towards the areas of review highlighted by the 2014-2015 Annual Governance Statement as above.

### **Progress to date**

#### **The need for the Cabinet to agree a new corporate plan for Autumn 2015**

6. The Cabinet considered and approved a summary version of the council's new corporate plan on 8<sup>th</sup> October 2015, as part of a suite of complementary reports concerning "The Next Five Years". This suite also included reports on the Medium Term Financial Plan and phase 2 of the succession planning report. The Cabinet is due to receive a further full corporate plan at its December meeting.



## **Completion of work reviewing the Council's current risk management procedures**

7. A report proposing a review of the way the council evaluates risks, alongside improvements in risk monitoring, management and review, was considered and endorsed by the Audit Committee at its meeting of 29<sup>th</sup> September 2015 – this addressed the stated area of review from the Annual Governance Statement of June 2015
8. Key officers across the authority are currently receiving training on the procedures behind these new risk arrangements, with the first update on the council's revised risk register due to be considered by the Audit Committee in March 2016.

## **Conclusion**

9. Following the meeting of the Audit Committee in September one of the two areas highlighted by the 2014 - 2015 Annual Governance Statement is now complete, subject to the appropriate training for officers to raise awareness of the revised risk arrangement. Whilst Cabinet has approved the summary version of the corporate plan, with a full version due to be considered by the committee before the end of the calendar year it is fully expected that this other governance area will also be completed by the end of this next quarter.

**Contact:** Nick Clayton

**Email:** [Nicholas.clayton@ashford.gov.uk](mailto:Nicholas.clayton@ashford.gov.uk)

**Agenda Item No:** 8  
**Report To:** Audit Committee  
**Date:** 1 December 2015  
**Report Title:** External Auditor's Update  
**Report Author:** Lisa Robertson ( Engagement Manager, Grant Thornton UK)  
Paul Naylor – covering report (Deputy Chief Executive)



**Summary:** The attached report is the latest general update from our external auditors, Grant Thornton UK LLP.

The report contains details on the progress of audit work at Ashford. In this regard there is one update to the audit of the Housing Benefit Grant Claim. This was recently completed, following further quality review testing, and we understand will be signed off and completed by the auditors as Unqualified without adjustment. This is a most welcome conclusion and testimony to the data processing and verification work undertaken by the service in processing several thousand housing benefit claims and changes of circumstances over the year.

Grant Thornton's report also contains summary updates from its national work and of relevant statutory changes to accounting and auditing matters. Most documents referred to have either been received by the council or are available on the internet.

Not all issues mentioned in the update are directly for the Audit Committee, but a good number will be of interest.

There is a report elsewhere on the agenda providing an update of the position with 'Local Public Audit' following a recent government announcement. It is suggested this matter is further reported to the Committee at its March meeting.

Pre- audit committee briefing sessions are a good opportunity to brief on some of these topics, but with their number limited officers can provide more advice in topical briefings that can be circulated to the committee between meetings.

**Key Decision:** Not applicable

**Affected Wards:** none specifically

**Recommendations:** The Committee is asked to note the External Auditor's update report and agree that the Committee should receive further briefings on the topical matters raised either at appropriate committee pre-briefings or in written briefings between meetings.

**Policy Overview:** External audit is a statutory requirement and the work of the auditors, including the advice papers received forms an important part of the council's governance and ongoing development.

**Financial Implications:** none specifically

**Other Material Implications:** The matters referred to in Grant Thornton's national reports will help to inform officers future reports and members' decisions over the coming months

**Contacts:** Lisa.roberston@uk.gt.com  
Paul.naylor@ashford.gov.uk

# Ashford Borough Council Audit Committee Update

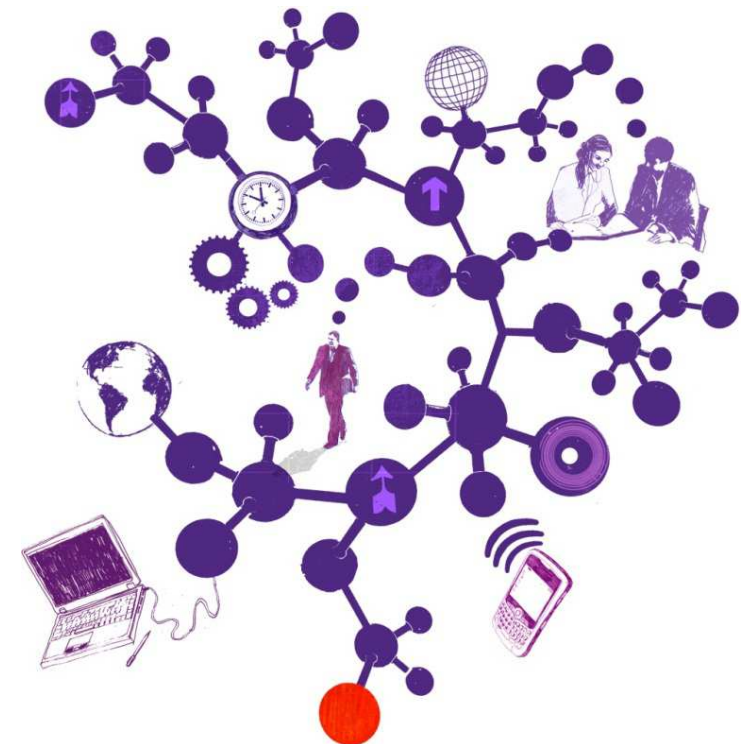
**Year ended 31 March 2016**

December 2015

**Emily Hill**  
Engagement Lead  
T 020 7728 3259  
E [emily.hill@uk.gt.com](mailto:emily.hill@uk.gt.com)

**Lisa Robertson**  
Engagement Manager  
T 020 7728 3341  
E [lisa.e.robertson@uk.gt.com](mailto:lisa.e.robertson@uk.gt.com)

**Neil Robertson**  
Engagement In-charge  
T 020 7383 5100  
E [neil.a.robertson@uk.gt.com](mailto:neil.a.robertson@uk.gt.com)



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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# Contents

<b>Section</b>	<b>Page</b>
Introduction	4
Progress at December 2015	5
Emerging issues and developments	
Accounting and audit issues	8
Grant Thornton	10
Other local government issues	15

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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; and
- 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 (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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.

# Progress at December 2015

Work	Planned date	Complete?	Comments
<p><b>Fee Letter</b> We are required to issue a planned fee letter for 2015/16 by the end of April 2015.</p>	April 2015	Complete	<p>The Audit Commission published the work programme and scales of fees for the audit of the 2015/16 accounts of principal audited bodies, including the lists of fees for individual bodies before it's closure. This included reduced scale audit fees for Councils by 25%. There are no changes to the work programme for 2015/16.</p> <p>The fee letter confirmed the 2015/16 scale audit fees as £60,311.</p> <p>After the Commission's closure, the 2015/16 work programme and fees is accessible from the PSAA website.</p>
<p><b>Accounts Audit Plan and interim audit</b> We are required to issue a detailed accounts Audit Plan setting out our proposed approach to give an opinion on the Council's 2015/16 financial statements.</p> <p>Our interim fieldwork visit will include:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated 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> </ul>	November 2015 - March 2016	Not yet due	The findings from this work will be presented in our Audit Plan, presented to the March Committee.



# Progress at December 2015

Work	Planned date	Complete?	Comments
<p><b>Final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	June 2016	Not yet due	The findings from this work will be presented within our Audit Findings Report, presented to the Committee.
<p><b>Value for Money (VfM) conclusion</b> The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office (NAO). The consultation closed at the end of September and finalised Auditor guidance has recently been issued and is available on the NAO website.</p> <p>Auditor's are required to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties.</li> </ul>	Jan 2016 – June 2016	Not yet due	<p>Our planned approach will be set out in the Audit Plan.</p> <p>The findings from this work will be presented within our Audit Findings Report, presented to the Committee.</p>

# Progress at December 2015

Work	Planned date	Complete?	Comments
<p><b>Housing Benefits</b></p> <p>We are required to certify the Housing Benefit Claim in accordance with HBCOUNT approach as agreed between the Audit Commission and the Department for Work and Pensions.</p>	<p>August 2016 – October 2016</p>	<p>Yes</p>	<p>We certified the 2014/15 claim by end November 2015 deadline with no amendments or qualification letter.</p>
<p><b>Other activity undertaken</b></p> <ul style="list-style-type: none"> <li>• Audit of Local Authority Trading Companies</li> <li>• Certification of pooling of capital receipts return as required by the CLG</li> <li>• Discussed our report "Growing Healthy Communities: The Health and Wellbeing Index" with officers</li> </ul>	<p>-</p>	<p>-</p>	<p>We would always be happy to discuss any other ways in which Grant Thornton can support the Council.</p>

# Code of Audit Practice

## Accounting and audit issues

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the VfM conclusion).

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published draft audit guidance for consultation on the auditor's work on value for money arrangements in August 2015, which has been finalised in November 2015 and is available on the NAO website. Under the final guidance auditor's are required to consider whether a body has proper arrangements to secure economy, efficiency and effectiveness in its use of resources with reference to the following criteria:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

The new guidance will be applicable to the 2015/16 audit.

# New local audit framework – length of transitional period

## Audit and accounting issues

The implementation of the new local audit framework under the Local Audit and Accountability Act 2014 (the 2014 Act) is subject to transitional arrangements which include measures taken to ensure that the audit contracts originally let by the Audit Commission can continue under saved duties and powers that are exercised on behalf of the Secretary of State by Public Sector Audit Appointments Ltd (PSAA).

The existing contracts could be extended by one, two or three by decision of the relevant government departments which determines when local appointment should come into effect and so when the transitional period should come to an end.

The Department of Communities and Local Government (DCLG) have announced the the Secretary of State's decision about the timetable for local government bodies.

Smaller local government bodies (such as parish and town councils) will move to local appointment for the reviews of 2017/18 annual returns. We understand that progress is being made towards establishing a sector-led body to procure and appoint auditors on behalf of smaller authorities. Larger local government bodies, including fire and rescue authorities, police bodies and other local government bodies, will move to local appointment for the audits of the 2018/19 accounts, extending the current contract by one year. At present, it is not clear yet whether there will be a sector-led body to carry out procurements and appointments of auditors on behalf of local government bodies, but the longer timescale allows more time to establish such arrangements.

CIPFA has been asked by DCLG to prepare guidance for local government bodies on developing local auditor panels.

# Knowing the Ropes – Audit Committee Effectiveness Review

## Accounting and audit issues

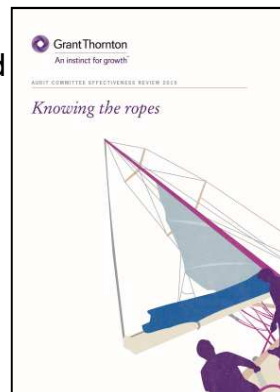
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



**Size:** 3-5 members is an ideal size for an audit committee

**Frequency:** meetings should be regular and the length should adapt to content

**Relevance:** audit committee members should be selected based on the skills and experience they bring

**Communication:** papers should strike the balance between detail and length

**Ability:** training should be provided for audit committee members

**Clarity:** the role of the audit committee and its relationship with other committees, should be clearly defined

**Evolution:** audit committees should continually develop

*The two key things that audit committee members should be asking are:*

- 1 What is expected of the audit committee and does it reflect the specific nature of the industry in which the organisation sits?
- 2 Does the audit committee have clear terms of reference in place? Audit committees should set themselves targets for what they want to achieve and define how these will be measured to ensure they are operating effectively.

# Growing healthy communities: The Health and Wellbeing index

## Grant Thornton market insight

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Hard copies of our report are available from your Engagement Lead and Audit Manager.



# Making devolution work: A practical guide for local leaders

## Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this the start of an iterative process extending across the current Parliament and potentially beyond.

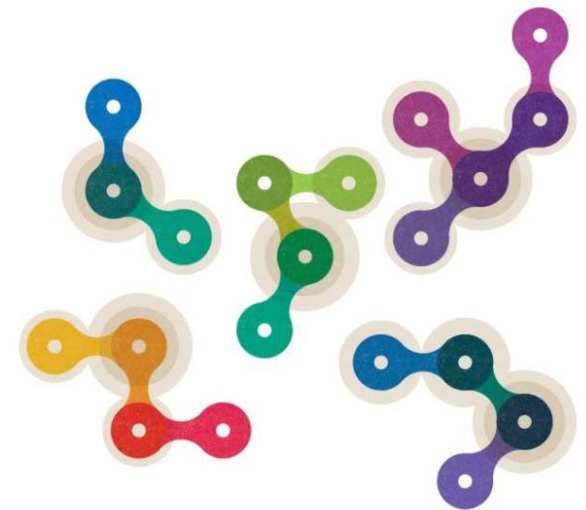
With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager.

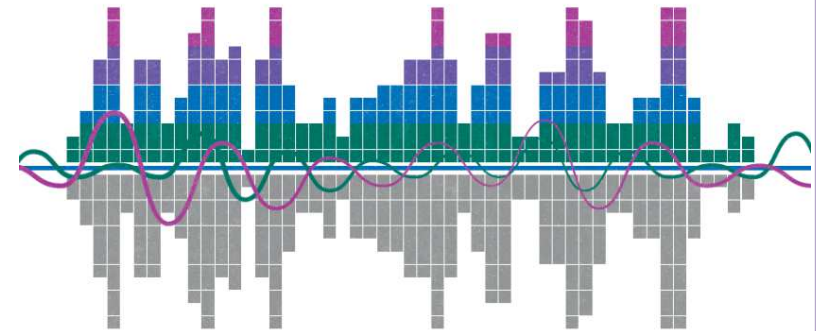


# Turning up the volume: The Business Location Index

## Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



# Supporting members in governance

## Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

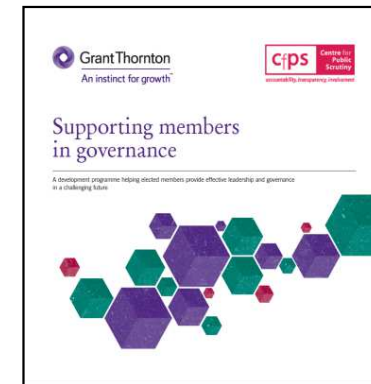
Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



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# George Osborne sets out plans for local government to gain new powers and retain local taxes

## Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their Local Enterprise Partnerships, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

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# Councils must deliver local plans for new homes by 2017

## Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

# Improving efficiency of council tax collection

## Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closed on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

**Slide 17**

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**EH7**

Did a bit of reordering f slides to make flow better

Emily Hill, 22/11/2015



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**Agenda Item No:** 9

**Report To:** **Audit Committee**

**Date:** **1<sup>st</sup> December 2015**

**Report Title:** Annual Report on Reserves and Balances

**Report Author:** **Ben Lockwood**  
**Head of Finance**

**Portfolio Holder** Cllr Shorter  
Portfolio holder for Finance, Budget & Resource Management



**Summary:** This report has been requested in response to a minute from the December 2014 Audit Committee meeting requesting an annual update on the level of the Councils reserves.

The Council has a policy to have a General Fund Reserve of no less than 7.5% of the councils Net Budget Requirement (approximately £1m).

The Council also hold a number of earmarked reserves that are reserves held for specific purposes, a schedule of these is attached to the report.

**Key Decision:** No

**Affected Wards:** None

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

- 1. Note the report**
- 2. Note that for this year and all future years a review of Reserves and Balances is undertaken as part of the scrutiny of the budget**

**Policy Overview:** The Council has to maintain an adequate general fund balance and can earmark sums in reserves for specific purposes. The Council has set a policy where the minimum level of general fund balance in 7.5% and it is considered that this remains a prudent policy.

**Financial Implications:** None specifically – the reserves levels are reviewed regularly as part of the budgeting and resource planning purposes and no changes are recommended.

**Contact:** Ben Lockwood (01233) 330540





## **Report Title: Annual Report on Reserves and Balances**

### **Purpose of the Report**

1. When this committee discussed the Auditors Annual audit Letter for 2013/14 (December 2014) our auditors mentioned that the adequacy of reserves was an issue for each authority to decide. This committee decided to request a report on the level of reserves and balances. This report provides that update to the committee.

### **Issue to be Decided**

2. The Audit Committee is asked to note the report
3. A review of the level of reserves and balances is undertaken as part of the financial planning process and budget scrutiny. Therefore the committee is asked to note that the Budget Scrutiny Committee reviews balances of reserves as part of their scrutiny of the budget.

### **Background**

4. The bottom section of the Council's balance sheet is made up of useable and un-useable reserves. The un-useable reserves are balances that have been derived through the historic treatment of financing capital assets and liabilities. They are normally non cash backed reserves and not available for members to allocate or spend,
5. The council holds a number of useable reserves, these are generally divided into general reserves and earmarked reserves. General reserves are funds available to emergencies and to help manage pressures that arise during the year. Earmarked reserves are balances that are earmarked for a specific purpose, these can also be reserves that the council is required to hold by statute (for example the Building Control Reserves) and reserves that hold funds that have been received from developers for S106 contributions. The Council also holds capital reserves which are accumulated balances for capital receipts that have been realised and unspent. Reserves can also be sub-divided between housing Revenue Account and General Fund.
6. The Authority has a policy to maintain a General Fund reserve of 7.5% of net budget requirement, for 2015/16 the net budget requirement is £13.7m which means that the minimum level of General Fund Balance is £1.03m. The Opening position was £1.5m which is comfortably above the minimum required level.
7. The Cabinet has recently received and agreed a report on the Council's medium term financial plan. This section included sections on the forecast level of reserves and it is upon this work that this report is based.

### **General Fund Balance**

8. The Table below contains the forecast level of General Fund Balance for the medium term financial plan, this shows that in the short term the balance on the reserve is will increase however as budget gaps develop the surplus' accumulated in the current and following year will be used to balance the budget requirement.

## General Fund Balance

	Balance at 31st March 2015 £'000	Budgeted 2015/16 Transfers £'000	Estimated Balance at 31st March 2016 £'000
General Fund Balance	1,549	698	2,247

9. There is a sufficient level of cover for the general fund balance to meet the required minimum level of reserves. However it needs to be remembered that the MTFP includes a drawdown of £500,000 over the next 3 years which will reduce the Councils margin above its established minimum General Fund Reserve Balance.
10. The government's reform of local government funding has led to a transfer of funding risk to local government with increased risks through the level of business rates income. This can be seen through the level of business rates appeals that have been lodged and represent a threat to the Councils funding. In addition there is a threat that a major business rate payer leaves the borough. These risks could lead Members to conclude that the level of General Fund reserve needs to be amended to reflect this enhanced risk environment. However, to manage this risk the Council has set up provisions for business rates appeals based on forecasts from experts, Analyse Local. In addition the council has created an earmarked reserve for Business rates income which is kept to manage the volatility of business rated income.
11. Therefore the minimum level of general fund balance can be maintained at no less than 7.5% of net budget requirement

## Earmarked Reserves

12. The Council has a number of earmarked reserves, these are reserve balances that have been allocated to cover a specific need or event. A schedule of these balances was included in the medium term financial plan report to cabinet in December and is reproduced in this report at **Appendix A**.

### Summary of Earmarked Reserves

	Balance at 31st March 2015 £'000	Budgeted 2015/16 Transfers £'000	Estimated Balance at 31st March 2016 £'000
<i>Earmarked reserves</i>			
Fund future expenditure	5,931	-3,231	2,700
Provision for the maintenance of assets	3,950	-2,901	1,049
Reserves required by statute	223	10	233
Developer contributions	5,500	-	5,500
<b>Total Earmarked Reserves</b>	<b>15,604</b>	<b>-6,122</b>	<b>9,482</b>

13. The schedule shows that there are a number of significant commitments for Earmarked Reserves which will reduce those balances but it should be remembered that those commitments are for the purpose against which the reserve has been earmarked and therefore represent a planned use of the reserve.
14. These reserves have been reviewed by Management Team and Cabinet as part of the budgeting process and are reviewed when spending priorities are considered.

### **Handling**

15. Whilst the Councils external auditor will submit reports to the audit committee and make comments on the level of reserves and balances, it needs to be considered whether the Audit Committee is the correct place to review these items. The cabinet receives advice on the level of reserves and balances as part of the financial planning and budgeting process, this is then scrutinised by the Overview and Scrutiny Committee when they complete their work in the budget.
16. Decisions on the allocation, and appropriateness of reserves and balances are therefore better placed with these committees rather than the Audit Committee and therefore it is recommended that the review of reserves and balances be completed by the Overview and Scrutiny committee as part of its work on the budget.

### **Conclusion**

17. The policy that the General Fund Balance be maintained at a minimum of 7.5% is appropriate and does not need to be amended.
18. The Councils Earmarked reserves are held for specific purposes with planned uses of those amounts.
19. That Overview and Scrutiny should review reserves as part of the scrutiny of the budget.

### **Portfolio Holder's Views**

- 20.
- 21.

**Contact:**

**Email:**



**Agenda Item No:** 10

**Report To:** **AUDIT COMMITTEE**

**Date:** **1<sup>st</sup> December 2015**

**Report Title:** **REPORTING FOR ABC COMPANIES**

**Report Author:** Lee Foreman - Accountant  
Sarah Hartles – Principal Solicitor for Property and Projects

**Portfolio Holder** Cllr Shorter  
Portfolio holder for Finance, Budget & Resource Management

**Summary:**

This report sets out the governance arrangements that have been put in place for the council's companies, outlining the relationships and structures that have been put in place to manage the Council's interfaces with its companies.

The report discusses the appointment of external auditors for the companies and the mechanics of the loan agreement that has been established with the property company.

**Key Decision:** No

**Affected Wards:** None

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

- 1. Note the governance arrangements between the Council and the Council's wholly owned subsidiaries, A Better Choice for Building Consultancy Ltd and A Better Choice for Property Ltd.**

**Policy Overview:** The council is seeking to develop income streams through the use of companies trading services. The Council has established 2 companies a Building Consultancy Company and Property Company.

**Financial Implications:** None

**Background Papers** **Cabinet 6 December 2012** - Creating Local Authority Trading Companies – In principal report  
**Selection & Constitutional Review Committee 13<sup>th</sup> June 2013** - The Creation of a Trading and Enterprise Committee of the Cabinet  
**Cabinet 13 June 2013** - Trading Companies - Main Report

including business cases and business plans

**Overview & Scrutiny Committee 9<sup>th</sup> July 2013** – To consider the call-in of Cabinet Minute 33/06/13: Trading Companies

**Cabinet 11 July 2013** - Report of Overview & Scrutiny Committee – Call-in of Cabinet Minute 33/06/13: Trading Companies

**Cabinet 12<sup>th</sup> September 2013** - Trading Companies – Update following O&S Recommendations

**Cabinet 13 February 2014** - Property Company Progress Report

**Overview & Scrutiny Committee 27<sup>th</sup> January 2015** - Progress Report on the Council's Commercial Companies

**Contact:**

Lee.Foreman@ashford.gov.uk – Tel: (01233 330540)

## **Report Title: REPORTING FOR ABC COMPANIES**

### **Purpose of the Report**

1. To provide members of the Audit Committee with assurance that the governance arrangements put in place between the Council and the Council's wholly owned companies are robust and provide effective assurance over the running of the companies.

### **Issue to be Decided**

2. To note that the current governance arrangements between the Council and the Companies are robust and provide appropriate assurance to the Council as shareholder.

### **Background**

3. In December 2012 the Council agreed the principle of creating two local authority companies to allow commercial trading activities to take place, with both companies being wholly owned subsidiaries of the Council.
4. Following extensive work, a report was presented to Cabinet in June 2013 where individual business cases were agreed, governance arrangements set, and appropriate delegations put in place. This Cabinet report was then called in by Overview and Scrutiny where seven further recommendations were made and subsequently approved by Cabinet. The seven recommendations, whilst not changing the substance or the purpose of the Cabinet's original recommendations, did satisfy a number of Members' concerns.
5. A Better Choice for Building Consultancy Limited ("ABC Building Consultancy Ltd") then commenced trading in January 2014. A further progress report was presented to Cabinet in relation to the property company on 13<sup>th</sup> February 2014, this additional report set out findings of an independent review of the business model (as had been recommended by Overview & Scrutiny Committee) and sought approval for the creation of the property company. A Better Choice for Property Limited ("ABC Property Ltd") then commenced trading in April 2014.
6. Both companies have a Shareholder's Agreement with the Council, which set out what each company can and can't do and when it needs consent from the Council, Cabinet or Trading & Enterprise Board for certain activities or actions.
7. A report was presented to the Overview and Scrutiny Committee in January 2015, which provided details of the progress of both companies.

## **REPORTING FOR ABC COMPANIES**

### **Structure and relationship between ABC and Companies**

8. A Better Choice for Building Consultancy Limited and A Better Choice for Property Limited are wholly owned subsidiaries of the Council, this means the Council is the only shareholder . This gives the Council complete control over both companies.

9. As shareholder, the Council has the ability to appoint and remove the Directors if it does not like the way in which the Directors are running the companies. This gives the Council ultimate control over how the companies are run on a day to day basis and the activities that they carry out.
10. The Council exercises this control through the monitoring and reporting regime that was put in place in the Shareholder's Agreement that both companies have entered into with the Council. The Shareholder's Agreement also sets out what each company can and can't do and when it needs consent from the Council, Cabinet or Trading & Enterprise Board.
11. The Trading & Enterprise Board ("TEB") is a sub-committee of Cabinet and as such consists of Cabinet members and one councillor who is not a member of the Cabinet, who acts as an observer. It is to the Trading & Enterprise Board that the companies report their performance to, and any changes to their business plans and any new business plans, must be approved by the Trading & Enterprise Board before they are put before Cabinet for approval. A Schedule of items that are required to be reported to the TEB has been attached at Appendix C.
12. The terms of reference of the TEB were approved by the Selection and Constitutional Review Committee, and subsequently by Council, in June 2013. They enable the TEB to determine how often and when it should meet and gives the TEB responsibility for overseeing any trading companies that the Council has an interest in.
13. At the meeting of the TEB on 9<sup>th</sup> November the original reporting requirements were amended slightly to those now shown in Appendix C. The amendments were requested as the original timescales have not proven to be practical in the first year of business. In some cases, there has been nothing or very little to report on the original reporting dates. The TEB supported these amendments and its recommendations will be put forward to the cabinet in December.
14. Another layer of control is that each company currently has one director who is also a member of the Council, but there is no limit on the number of directors who are also members.
15. Councillors are given a further opportunity to observe the work of the companies by attending their Annual General Meetings. The requirement to hold an Annual General Meeting is contained in the Articles of Association of both companies. This obligation is also included in the Shareholder's Agreement, where it also says that all Councillors shall be invited to attend and that the companies shall report to the AGM on those matters that the Trading and Enterprise Board require it to report on annually. The recent AGM's are discussed later in this report.

## **Funding for the Property Company**

16. In relation to ABC Property Ltd, the Council has entered into a loan agreement with it for £10million. This £10million is to be drawn down in tranches of £2million and each tranche needs the approval of full Council before it can be released to ABC Property Ltd.



17. All of the money that the company borrows is secured against the properties that it buys and the Council has a first legal charge on each property. The loan facility agreement contains provisions that state that the loan to value ratio must not be higher than 1 to 1, thus protecting the Council's investment.
18. In order to ensure that any loan the Council makes to ABC Property Ltd complies with European State Aid laws, the Council has to ensure that the interest rate that it is charging ABC Property Ltd is one that the company could reasonably expect to obtain in the commercial market, or one that a reasonable parent company would make available to a wholly owned subsidiary company. In order to do this, the Loan Facility Agreement states a number of reference points that the Council will use to determine the interest rate that will apply to that drawdown at the point that the company draws down the funds. This ensures that ABC Property Ltd is not getting preferential interest rates as a result of the Council being a public body. This also means that the Council can borrow at a lower rate than it is charging ABC Property Ltd and gets to keep the interest uplift, generating an income for the Council. These interest rates are determined using the reference points set out in the Loan Facility Agreement, by the Council's section 151 officer at the time the company requests a drawdown.
19. If something were to go wrong, or the Council decided to close the company, it would be able to use its powers as mortgagee to take possession of the properties and sell them to realise the capital value and repay the borrowings.
20. It should be noted that included in the loan agreement is an undertaking by the Council to refinance the loans when the loan facility expires. This assurance provides comfort to the company that its re-financing risk can be managed.

## **Appointment of External Auditors and Consolidation of Accounts**

21. As the companies are wholly owned subsidiaries of the Council they have to be audited by an Auditor approved by Public Sector Audit Appointments Ltd. (PSAA). Due to this requirement the auditors that can carry out the audit are restricted to only a handful of companies: Ernst & Young, BDO, Grant Thornton, KPMG, or Mazars. In light of this the companies have agreed independently at their respective AGM's to appoint Grant Thornton LLP (GT). The appointment of GT has a number of benefits including alignment with the Council's auditors, consistency in approach and interpretation of accounting standards, and underlying knowledge of the companies' activities.
22. ABC Building Consultancy Ltd has been audited, received a satisfactory audit report and accounts subsequently filed with Companies House. ABC Property Ltd will be audited later in the year with accounts due to be filed with Companies House by 31 December 2015.
23. In relation to the consolidation of the companies accounts with the Councils, the Council did not consolidate accounts in 2014/15 following consideration of CIPFA's publication, Accounting for Collaboration in Local Government. The primary factor for not consolidating accounts was the lack of material affect the consolidation would have on the Council's accounts. This will be re-assessed on an annual basis and judged accordingly. This decision has been reviewed by, and is supported by, Grant Thornton in their capacity as the

Council's Auditor. However given that the level of Materiality for the Council's accounts is circa £1m, and that the assets of the property company are exceeding that figure, it makes harder to argue that group accounts will not apply and therefore there is a strong probability that group accounts will apply next year.

## **Companies Statement of Accounts 2014/15**

24. The accounts for ABC Building Consultancy Ltd were agreed at its AGM on 17<sup>th</sup> June 2015 where Cllr Mrs Bell represented the Council as shareholder as substitute for Cllr Bell (who is the Council's appointed Shareholder Representative as Chair of the TEB). A copy of the Company's financial statements can be seen at appendix A.
25. The Accounts for ABC Property Ltd were agreed at its AGM on 29<sup>th</sup> June 2015 by the Shareholder's Representative, Cllr Bell. A summary of the draft financial statements can be found at appendix B.

## **Conclusion**

26. The Governance structures outlined in this report are significant and adequate and the Cabinet has delegated responsibility to the TEB for the ongoing monitoring of the companies.

## **Portfolio Holder's Views**

27.

**Contact:** Lee Foreman (01233) 330509  
Sarah Hartles (01233) 330215

**Email:** [lee.foreman@ashford.gov.uk](mailto:lee.foreman@ashford.gov.uk)  
[sarah.hartles@ashford.gov.uk](mailto:sarah.hartles@ashford.gov.uk)

A Better Choice for Building Consultancy Ltd  
**Financial Statements**

**Statement of changes in equity for year ended 31 March 2015**

	Retained Earnings £	Total Equity £
<b>Balance at 1 April 2014</b>	<b>0</b>	<b>0</b>
<b>Changes in equity for 2014/15</b>		
Profit for the year	13,405	13,405
Total comprehensive income for the year	13,405	13,405
Dividends	<b>0</b>	<b>0</b>
<b>Balance as at 31 March 2015</b>	<b>13,405</b>	<b>13,405</b>

**Statement of cash flows for the year ended 31 March 2015**

	2014/15 £
<b>Cash flows from operating activities</b>	
Profit before taxation	16,756
Adjustments for non-cash income and expenses:	
Increase in trade and other receivables	(7,870)
Increase in trade payables	52,509
Income taxes paid	0
<i>Net cash from operating activities</i>	61,395
<i>Cash flows from investing activities</i>	0
<i>Cash flows from financing activities</i>	0
<b>Net increase in cash and cash equivalents</b>	<b>61,395</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>0</b>
<b>Cash and cash equivalents at end of year</b>	<b>61,395</b>

A Better Choice for Building Consultancy Ltd  
**Financial Statements**

**Statement of comprehensive income for the year ended 31 March 2015**

	2014/15
<b>Continuing operations</b>	<b>£</b>
Revenue	77,552
Cost of sales	(57,856)
<b>Gross profit</b>	<b>19,696</b>
Administrative expenses	(2,941)
<b>Profit before tax</b>	<b>16,756</b>
Income tax expense	(3,351)
<b>Profit for the year</b>	<b>13,405</b>

**Statement of financial position at 31 March 2015**

	2014/15
	<b>£</b>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash	61,395
Trade and other receivables	7,870
	<b>69,265</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Trade payables	52,509
Current tax liability	3,351
	<b>55,860</b>
<b>Net Assets</b>	<b>13,405</b>
<b>Equity</b>	
Retained earnings	13,405
<b>Total equity</b>	<b>13,405</b>

A Better Choice for Property Ltd  
Financial Statements

<b><u>Comprehensive Income and Expenditure Statement</u></b> <b><u>(CIES) for Year Ending 31/03/2015</u></b>	
<b>Revenue</b>	<b>£</b>
Rent Received	<b>2,308</b>
Fees Reimbursed	<b>5,516</b>
<b>Total Revenue</b>	<b>7,824</b>
<b>Cost of Sales</b>	
Other Expenditure	<b>6,978</b>
<b>Total Cost of Sales</b>	<b>6,978</b>
<b>Profit / (Loss) from Operating Activities</b>	<b>846</b>
Finance Costs - Interest Charges	<b>5,612</b>
<b>Profit / (Loss) Before Tax</b>	<b>(4,766)</b>

<b><u>Statement of Financial Position as at 31/03/2015</u></b>	
<b>Assets</b>	<b>£</b>
<b>Non-Current Assets</b>	
Investment Properties	1,113,354
<b>Current Assets</b>	
Cash	26,236
Debtors	150,000
<b>Total Assets</b>	<b>1,289,590</b>
<b>Equity</b>	
Retained Earnings	145,234
<b>Non-current Liabilities</b>	
Long Term Borrowings	1,118,910
<b>Current Liabilities</b>	
Payables (Creditors)	25,446
<b>Total Equity and Liabilities</b>	<b>1,289,590</b>

## **Commercial Companies Reporting Requirements**

### **Routine Reporting**

#### Six monthly to the TEB

Within 15 working days after the end of each half of the financial year, a report showing progress against the Business Plan to the TEB.

No later than 20 working days after the end of each half of the financial year, a financial statement and unaudited management accounts to be provided to the TEB.

#### Annually

Accounts must be audited within 6 months of the end of the year and provided to the TEB.

An annual general meeting is to be held and all councillors invited to attend.

A report on the progress against the Business Plan to be provided to the TEB at least 90 days before the end of each Financial Year (30<sup>th</sup> December for a 31<sup>st</sup> March Financial Year end), and request any variations.

Appointment of the Auditors – approval of the TEB required.

#### New Business Plan

To the Board – at least 90 days before the end of the Business Plan Period (30<sup>th</sup> December for a 31<sup>st</sup> March end of plan) submit a new Business Plan to the TEB for approval.

To the TEB to approve the Business Plan submitted by the Board and to recommend it to Cabinet for approval.

### **Event driven actions**

If the company wishes to carry out an area of business not within the current Business Plan but within the core business of the Company with an annual value in excess of £25,000, then a specific Business Plan needs to be submitted to the TEB for that area of business.

Amendment of Financial Regulations – with approval of the TEB

Purchase or contract where the price is greater than £250,000 for ABC Building Consultancy Ltd, or £400,000 per unit for ABC Property Ltd – with approval of the TEB if it is contained in the Business Plan, otherwise with Cabinet and Council approval.

Entering into any borrowing arrangements or giving security – approval of the TEB

Entering into or applying for grant funding – approval of the TEB

Before lodging an appeal to a planning decision – approval of the TEB

Any restructuring matters (ie creating a subsidiary, entering into a Joint Venture) – approval of Council

Before anyone (director or employee) is paid by the Company and determining the level and terms of the remuneration – approval of Council

Any winding up action – approval of Council

Before changing the registered office or place of business – approval of Council

Issuing any shares in the Company – approval of Council

**Agenda Item No:** 11  
**Report To:** Audit Committee  
**Date:** 1 December 2015  
**Report Title:** Procurement and Appointment of External Auditors – further update  
**Report Author:** Paul Naylor, Deputy Chief Executive



**Summary:** In June the committee received an information item updating members about the legal framework put in place and the options to become available to councils to appoint their external auditors at a point in the future that was then still to be determined. A copy of that main report is appended for ease of reference.

The Department of Communities and Local Government (CLG) has recently determined the timing by when councils must have newly procured external audit services in place. This report provides the further update.

**Key Decision:** Not applicable

**Affected Wards:** None specifically

**Recommendations:** **The Committee be asked to note the further update and agree that in the new year it should receive another report for the Committee to consider the options more fully, once further guidance is published by CIPFA.**

**Policy Overview:** External audit is a statutory requirement for all councils and forms an essential part of the council's governance framework. At the start of the previous coalition the government announced its intention to abolish the Audit Commission and legislate to permit councils to be able to procure their own external audit services, subject to councils observing a legislative framework and statutory guidance.

**Financial Implications:** None arise from this report. Significant savings in external audit costs have been secured through the programme of government outsourcing the former Audit Commission's work.

**Risk Assessment** Not applicable at this stage. A risk assessment will appear in a future report once CIPFA guidance is published to assist councils in their decision-making on the choice of options available.

**Equalities Impact Assessment** Not applicable at this time.



**Other Material  
Implications:**

None at this time

**Background  
Papers:**

None

**Contacts:**

[paul.naylor@ashford.gov.uk](mailto:paul.naylor@ashford.gov.uk) – Tel 01233 330436

## **Report Title: Procurement and Appointment of External Auditors – further update**

### **Purpose of the Report**

1. To advise the Committee of the CLG's announcement to extend the current external audit contracts for one further year, meaning councils now have a clear timetable for their procurement of external audit services

### **Background**

2. In June the committee received an information item updating members about the legal framework put in place and the options to become available to councils to appoint their external auditors at some point in the future. A copy of that report is appended for ease of reference.
3. The Department of Communities and Local Government (DCLG) has recently determined the timing by when councils must have newly procured external audit services in place.
4. For local authorities, police, fire authorities, clinical commissioning groups and health trusts that currently have external auditors appointed for them by the Audit Commission, the provisions of the Local Audit and Accountability Act 2014 will soon be coming into force.
5. The Audit Commission closed on 31 March 2015, but the current external audit contracts continue (for Ashford Borough Council the provider is Grant Thornton UK plc) and are managed by Public Sector Audit Appointments Ltd. This is a company established by the Local Government Association with staff previously employed by the Audit Commission transferred to the company to oversee the contracts.
6. The objective of the Act is to put in place new arrangements for the appointment of auditors, with local bodies having the opportunity to appoint their own. There are to be three options for councils.

### **Decisions taken by government departments**

7. The Department of Health has announced that health bodies will adopt the provisions of the Act with effect from the 2017/18 financial year. This means that external auditors for health bodies will need to be appointed by the end of December 2016 as the Act requires appointments to be in place three months before the start of the financial year.
8. The Department for Communities and Local Government (DCLG) has decided that existing audit contracts for principal authorities (including local authorities) can be extended by one year so that councils will need to be appoint their own auditors for 2018/19 financial year. This means that an external auditor must be appointed by the end of December 2017.

9. Depending on the option chosen by the council several months for a procurement could be needed.

### **Options for the appointment of external auditors**

10. There are three options the council will have:
  - a) To undertake for itself a procurement exercise using an 'auditor panel' to agree the process and the recommendation for an award of a contract to be made to the Full Council
  - b) To undertake in conjunction with other councils or bodies a procurement exercise, once again overseen by an 'auditor panel'.
  - c) To opt into a sector-led procurement. In this instance an 'auditor panel' will not be needed to oversee the procurement and make a recommendation on the appointment.
11. Various regulations have been issued under the Local Audit and Accountability Act 2014 that set the full statutory requirements for councils to appoint their external auditor. A summary of the main conditions is appended. The Committee will see the requirements are tightly drawn and place great emphasis on securing external audit that is independent of the audited body.
12. Whilst the decision on which option to adopt is for each council we can expect suggestions for consortium approaches to follow as councils start to consider these options next year. The third option above does not as yet have a designated body appointed by government, but this may be expected in the new year. The regulations for this option give the appearance of processes similar to those that applied to the former Audit Commission in terms of the process of appointing external auditors.

### **Guidance available**

13. The DCLG commissioned CIPFA to write guidance on the appointment of auditor panels. This is currently being finalised with the DCLG and will be available soon. Training will also be available in 2016 on establishing auditor panels.

### **Steps to take reasonably soon**

14. Although decisions do not have to be taken straight away it is important to start the evaluation of options soon. Plenty of time is required to plan a procurement, including giving consideration to the governance implications of auditor panels, their make-up and relationship to the Audit Committee.
15. It will not be possible for the Audit Committee to take on the role of an 'audit panel' unless the council were to decide to change the constitution of the

Committee and change its membership to consist of a majority of unelected independent persons and chaired by one such person.

16. Auditor Panels would be restricted to the role of recommending and overseeing an external auditor appointment process, and periodically monitoring the effectiveness of its external auditor once appointed. In all other respects the Audit Committee would continue with its current remit.
17. It is expected the CIPFA guidance will contain detailed advice on these matters.
18. The third option of procuring and appointing external audit services through a sector led body would not require an auditor panel. It is possible a large number of councils will choose this route. There will be advantages and some disadvantages to this option that will need to be considered by members. However, at the present time DCLG has not made any announcement about the identity of a sector led body. It remains the LGA's preference that its current specialist company is designated for this purpose.
19. The second option of a consortium approach will also need to be considered. There would be some advantages of scale and possibly economy. A consortium approach could be adopted purely to increase opportunities to attract better offers than procuring alone, or could be approached as an extension of a consortium that exists for wider purposes across a group of councils. For example councils working together on shared services may look a little more closely at this option.
20. It is therefore suggested that a further report be considered by the Committee once the CIPFA guidance is published (there is no date fixed for this as yet).
21. It should be noted that it would be necessary for the Committee's conclusion to be considered by the Full Council, and it would be advisable for its recommendation to be considered by the Cabinet. In terms of timing it seems likely that conclusions will need to be determined by the summer of 2016.

**Contact:**

Email: paul.naylor@ashford.gov.uk

## **Auditor Panels - summary of relevant legislation**

### **Local Audit (Auditor Panel) Regulations 2014 in conjunction with the Local Audit and Accountability Act 2014 and other regulations**

The Act and associated regulations provide the legislative conditions for the construct and function of auditor panels. The main points are as follows:

#### **a. Auditor Panels:**

- i. must have three or more members, with a majority of non-elected independent members one of which must be the chair
- ii. the decision to appoint a panel is not an executive/cabinet decision
- iii. the term of office must be determined by council
- iv. qualifying conditions apply
- v. allowances may be paid
- vi. quorum is three with a majority on independent members present

#### **b. Functions of a Panel**

- i. Advisory only
- ii. to advise on the maintenance of an independent relationship between the auditor and the council
- iii. advise on the selection and appointment of an auditor
- iv. must advise as the auditor panel considers appropriate and at other times if asked by the council
- v. must advise, if asked, on any proposal to limit the liability of an auditor
- vi. Secretary of State may vary the functions
- vii. auditor panel advice must be published, subject to certain conditions
- viii. panels must take account of any relevant Secretary of State guidance
- ix. panels can call members and officers to meetings and for any documents in aid of its functions
- x. panels must inform the Secretary of State if a council fails to appoint an auditor

#### **c. Meaning of 'independent'**

- i. not been a councillor or officer of the council for at least five years (from the start of contract)
- ii. not been connected with the council for at least five years including not being a member or employee of a connected body/company
- iii. not a relative or close friend of any serving councillor or officer
- iv. not having any beneficial interests
- v. not a current or prospective auditor of the council or an employee/member of an auditor of the council for the past five years

**d. The Appointed Persons option (this does not need an auditor panel)**

- i. designated by the Secretary of State (no designation as yet)
- ii. must invite councils to participate (opt-in)
- iii. must appoint an auditor(s)
- iv. must design and implement systems to oversee auditor independence, monitor compliance and resolve disputes
- v. must agree and consult on fee scales

**Agenda Item No:**

**Report To:                   AUDIT COMMITTEE**

**Date:                           30 June 2015**

**Report Title:               Future of local public audit – Update (for information)**

**Report Authors:           Paul Naylor, Deputy Chief Executive**



**Summary:**

On 31 March the Audit Commission closed and its remaining functions transferred to a number of other bodies. Closure was originally signalled in an announcement by the former Coalition Government in 2010 when it announced its intention to introduce legislation to close the Commission with the eventual transfer of responsibility for local public audit procurement to councils and other audited bodies. This information report provides further background to the Council's responsibilities to procure local public audit services when the current audit contract with Grant Thornton UK expires. A further and more comprehensive report will be presented to the September meeting of the Audit Committee.

**Key Decision:**               Not applicable

**Affected Wards:**           None specifically

**Recommendations:**      **The Committee is asked to note the report for information.**

**Contacts:**                    [paul.naylor@ashford.gov.uk](mailto:paul.naylor@ashford.gov.uk) - Tel: (01233) 330436

## Future of local public audit – update INFORMATION ITEM

1. On 31 March the Audit Commission closed and its remaining functions transferred to a number of other bodies. Closure was originally signalled in an announcement by the former Coalition Government in 2010 when it announced its intention to introduce legislation to close the Commission with the eventual transfer of responsibility for local public audit procurement to councils and other audited bodies.
2. The Commission has since outsourced its audit work totally. This led to the Commission appointing Grant Thornton UK as our external auditor for a five-year period as part of a contract covering the south east region. This and the other outsourced contracts secured significant cost reductions for councils, with costs fixed for five years (contracts expire at the end of the 2016/2017 financial audit, so in the autumn of 2017). However, an option to extend for a further two years on similar terms is available to government. If contracts are not extended the council would have to decide on its procurement and award a contract by December 2016. In practice this would mean commencing a procurement by Spring 2016 at the latest.
3. The scope of external audit work under these contracts is limited to cover councils' financial audits (including public inspection rights), grant certification, and providing a value for money opinion. This more limited scope partly accounts for the cost reduction.
4. A decision on whether to extend the contracts or not will be taken by the Secretary of State for Communities and Local Government possibly by the end of this calendar year, and it is hoped will be made following consultation with local government.
5. The Local Audit and Accountability Act 2014, formally enabled final closure of the Commission, and sets out the requirement for councils to create audit panels that would be responsible for recommending a procurement process, and recommending the appointment of an external auditor to their full council for decision.
6. As the Commission was responsible for appointing and monitoring auditors, and setting scale fees etc., government has transferred this responsibility until the end of the current contracts to Public Services Audit Appointments, a subsidiary company of the Local Government Association.
7. Audit panels must be chaired by and have a majority of non-elected independent persons. Audit panels would also be responsible for advising the full council on the 'maintenance of an independent relationship with the appointed auditor', and advising on 'any proposal to enter into an agreement limiting the liability of its auditor'.
8. Originally the government proposed that Audit Committees should possibly perform this role but then be mandated to be constituted with a majority of non-elected representatives. Following considerable opposition to this proposal from local government members and the Local Government Association the proposal was removed, but the requirement for audit panels remained.
9. The Act, supplemented by a subsequent set of regulations ((the Local Audit (Appointing Persons) Regulations 2015)) allows councils to procure audit services in a number of ways:
  - a) Individually and hence an individual council would create its own audit panel, or



- b) Jointly through a consortium approach for a contract to cover two or more councils, reflecting shared approaches to service delivery. In this case councils could create a single joint audit panel, or
- c) Through a government approved Specified Person who would appoint an auditor on behalf of those authorities that choose this option. A decision to select this option would be one for full council and would not require a recommendation from an audit panel. The Specified Person would take on other responsibilities of an audit panel. It is possible the LGA's company might be approved for this purpose.

- 10. There is no decision for councils at this time as the timing of the procurement need has not been determined. However a full report on this matter will be presented to the Audit Committee at its September meeting.
- 11. As further background two papers are attached. The first is a government summary of the bodies to whom the Audit Commission's residual functions have been transferred. The second is a recent Public Finance article written by the final controller of the Audit Commission that sets out a summary from her perspective of the key issues for councils.

FOR INFORMATION

Paul Naylor  
Deputy Chief Executive

June 2015

## Future of Local Audit

In August 2010, the Department for Communities and Local Government (DCLG) announced plans to put in place new arrangements for auditing England's local public bodies.

## Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015, 30 years after it was established.

Several of the Commission's functions will continue after its closure.

### **Management of audit contracts.**

An independent company created by the Local Government Association (Public Sector Audit Appointments Limited) will be responsible for overseeing the Commission's current external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It will manage the contracts and exercise statutory powers to appoint auditors, set and determine fees, and to make arrangements for housing benefit subsidy certification.

The professional conduct of auditors will continue to be regulated by the professional accountancy bodies<sup>[1]</sup>. From 2017 or up to 2020, Recognised Supervisory Bodies will determine the eligibility of local public auditors and register them and, in turn, they will be recognised and supervised by the Financial Reporting Council. The Financial Reporting Council's Audit Quality Review team will monitor the local public audits carried out by auditors through new regulatory arrangements.

### **Grant certification.**

The role of making arrangements for housing benefit subsidy certification will transfer to Public Sector Audit Appointments Limited from 1 April 2015. It is intended that this role will continue until housing benefit is rolled into Universal Credit, or until the audit contracts end – whichever happens first. The independent company will not have a role in relation to the certification of other grant claims.

### **Code of Audit Practice.**

The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors from 1 April 2015.

### **Whistleblowing.**

The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.

### **National Fraud Initiative.**

The Audit Commission powers to conduct the National Fraud Initiative will pass to Cabinet Office on the 1st of April 2015, and the NFI will run under Cabinet Office powers from that date onwards. The NFI matches data provided by some 1,300 participating organisations from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

### **Counter fraud.**

To preserve the legacy of the Audit Commission's counter-fraud work we will publish relevant counter-fraud tools and outputs online with open access before the Commission closes at the end of March 2015.

### **Provision of information about audit.**

The National Audit Office will publish information previously provided by the Audit Commission. The NAO will become the owner of *Council Accounts: A Guide to Your Rights*, often referred to as the guide to the electorate's rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor compliance and audit quality.

### **Analytical tools.**

Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments Limited and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool. The Financial Ratios Tool is also likely to continue, although arrangements are yet to be finalised.

### **National value for money studies.**

Building on its existing work, including in the Health sector, the National Audit Office now also carries out studies which consider the value for money of services delivered by the local government sector.

### **Best value inspections.**

The power to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014.

### **Audit Commission historic reports and information.**

The National Archives preserves copies of the Audit Commission's website and these are available at [http://webarchive.nationalarchives.gov.uk/\\*/http://audit-commission.gov.uk/pages/default.aspx](http://webarchive.nationalarchives.gov.uk/*/http://audit-commission.gov.uk/pages/default.aspx). For copies of the Commission's past reports you may view these on the National Archives website.

Not all of the professional bodies will be Recognised Supervisory Bodies for the purposes of local public audit.

See the Future functions at a glance page for contact details after 1 April 2015

**Audit Committee - Future Meetings**

<b>Date 15/03/2016</b>			
<b>Publish by 07/03/16</b>			
<b>Reports to Management Team by 3<sup>rd</sup> March</b>		<b>Council 21/04/16</b>	
1	Certification of Grant Claims – Annual Report	Gr Th (cover by ABC)	
2	Presentation of Financial Statements	MS	
3	Strategic Risk Management	RC	
4	Annual Governance Statement – Progress on Remedying Exceptions	PN/NC	
5	Internal Audit Operational Plan	RC	
6	External Audit Progress Report	Gr Th	
7	Report Tracker for Future Meetings	DS	

<b>Date 30/06/2016</b>			
<b>Publish by 22/06/16</b>			
<b>Reports to Management Team by 16<sup>th</sup> June</b>		<b>Council 21/07/16</b>	
1	Corporate Enforcement Support & Investigations Team Annual Report 2015/16	PN/HD	
2	Internal Audit Annual Report 2015/16	RC	
3	Annual Report of the Audit Committee 2015/16	RC	
4	Approval of Annual Governance Statement 2015/16	PN/NC	
5	2015/16 Financial Statements – Letters of Assurance to External Auditors	PN	
6	Review of Competency Framework and Appraisals Process	PN/MP	
7	External Audit Progress Report	Gr Th	
8	The External Audit Work Plan for Ashford Borough Council and Scale of Fees 2016/17	Gr Th (cover by ABC)	
9	Report Tracker for Future Meetings	DS	

<b>Date 29/09/2016</b>			
<b>Publish by 21/09/16</b>			
<b>Reports to Management Team by 15<sup>th</sup> September</b>		<b>Council 20/10/16</b>	
1	Annual Governance Statement – Progress on Remedying Exceptions	PN/NC	
2	Statement of Accounts 2014/15 and the External Auditor’s Audit Findings Report	Gr Th (cover by PN/BL)	
3	Strategic Risk Management	RC	
4	Report Tracker & Future Meetings	DS	

<b>Date 06/12/2016</b>			
<b>Publish by 28/11/16</b>			
<b>Reports to Management Team by 24<sup>th</sup> November</b>		<b>Council 15/12/16</b>	
1	Annual Governance Statement – Progress on Remedying Exceptions	PN/NC	
2	Annual Audit Letter 2015/16	Gr Th (cover by PN)	
3	Internal Audit Interim Report	RC	
4	External Audit Progress Report	Gr Th	
5	Report Tracker & Future Meetings	DS	

23/11/2015