



Notice of a Meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane,
Ashford, Kent TN23 1PL on Tuesday, 15th March 2016 at 7.00 pm.

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

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Nos.

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

See Agenda Item 2 for further details

3. **Minutes** – To approve the Minutes of the Meeting of this Committee held on the 1st December 2015

Part I – For Decision

4. Data Protection
5. Presentation of Financial Statements
6. Internal Audit Charter 2016/17
7. Internal Audit Plan

Part II – Monitoring/Information Items

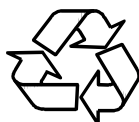
8. Strategic Risk Management

9. Reports from External Auditor (Grant Thornton UK)
 - (a) Certification of Grant Claims – Annual Report
 - (b) External Audit Work Plan for Ashford Borough Council
 - (c) Audit Committee Update

 10. Report Tracker and Future Meetings
-

DS/AEH
7th March 2016

Queries concerning this agenda? Please contact Danny Sheppard:
Telephone: 01233 330349 Email: 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
- (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 **1st December 2015**.

Present:

Cllr. Link (Chairman);
Cllr. Waters (Vice-Chairman);
Cllrs. Powell, Shorter, Smith, Mrs Webb.

In accordance with Procedure Rule 1.2(iii) Councillor Mrs Webb attended as Substitute Member for Councillor Buchanan.

Apologies:

Cllrs. Buchanan, Chilton.

Also Present:

Deputy Chief Executive, Head of Audit Partnership, Corporate Director (Operations), Head of Community & Housing Head of Finance, Head of Cultural & Project Services, Cultural Projects Manager, Policy & Performance Officer, Senior Member Services & Scrutiny Support Officer.

Emily Hill, Lisa Robertson - Grant Thornton UK.

217 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. | 221, 226 |
| Corporate Director (Operations) | Made a Voluntary Announcement as a Director of the ABC Property Company. | 221, 226 |
| Head of Finance | Made a Voluntary Announcement as a Director of the ABC Building Consultancy Company. | 221, 226 |

218 Minutes

Resolved:

That the Minutes of the Meeting of this Committee held on the 29th September 2015 be approved and confirmed as a correct record.

219 Questions from Members of the Public

The Chairman advised that as he understood a member of the public had questions on a number of issues he would allow him to ask them at this stage of the meeting.

In accordance with Procedure Rule 9.3 Mr Relf, a local resident addressed the meeting. He firstly referred to the Minutes of the last meeting where a Member had asked about the valuation of International House and asked if in future Members could be referred to by their name in the Minutes so that he could chase up an answer from that Member. The Senior Member Services & Scrutiny Support Officer advised that the Council's Committee Minutes were not written in this way but if Mr Relf wanted to contact the Member Services department, they would always endeavour to advise him which Members has asked which questions.

Mr Relf then asked if he was allowed to object to the Statement of Accounts on the grounds that he understood people were not paying Council Tax and their properties were not even on the Council Tax Register. Emily Hill advised that it was possible to object to a set of accounts that was not certified i.e. where the audit had not been completed. The audit for the 2014/15 set of financial statements had been completed and certified on the 30th September 2015 so he was not able to object to that particular set of statements. It would be possible to object to the 2015/16 financial statements if somebody could identify an item of account which they believe to be unlawful or where there was a particular issue which it was considered to be in the public interest for the External Auditors to investigate. A summary of rights regarding the Council's accounts and the rights to object could be sent to Mr Relf if that would be helpful.

Finally Mr Relf referred to benefit fraud and asked if the cost of the service was £100k, and the department was only recouping approximately £100k, and he considered there were serious flaws in how the system operated, was he able to object to the accounts on the grounds of that expenditure? He also asked if he could question expenditure related to the Council sending Officers to Chilmington caravan site to monitor benefit claimants who he believed were also working whilst claiming benefits, and whether that was a correct use of Council funds. Emily Hill advised that again, obviously not for the year just passed. Going forward, an individual could object to an item of expenditure that they believed had been made unlawfully. So if the expenditure in relation to housing benefit had been correctly recorded and any overpayment or error identified had also been correctly recorded, then there were no grounds on which to object. If there were allegations of fraud or other such matters then the Council did have procedures and processes internally which should be referred to in the first instance, and if there were further allegations of fraud after that which he felt had not been investigated appropriately by the Council which could be substantiated, then those matters should be taken to the Police.

The Portfolio Holder then responded to the points made on fraud. He advised that at its June meeting, this Committee had reviewed the value for money of the Council's Counter fraud team and had been assured that, in purely cash terms, they were getting back more money than was being spent on the team. However, the issue was more important than that because the simple presence of the team was dissuading people who may be thinking about attempting to be fraudulent. The

successful prosecutions that had been made and the publicity of those cases did act as a deterrent to other members of the community who may consider entering in to a fraudulent act. So there were immeasurable elements of gain/worth to the Council simply by having a competent and active fraud team. He wanted to give Mr Relf that reassurance.

220 Safeguarding Audit Report

The Head of Audit Partnership introduced the report which set out the findings and brief of the recent audit into the controls designed and operated by the Council to ensure it met its safeguarding obligations. Its findings and recommendations had been accepted by Officers. The report had come to the Committee following Members' request to see reports which had received a 'weak' or lower assurance rating. Recognising the prominence of safeguarding as an issue for Local Authorities generally, similar reviews had already been undertaken at Swale and Maidstone and Tunbridge Wells would be looked at in the spring. Swale and Maidstone's reports had also resulted in weak assurance ratings initially and Swale's, the first to be re-assessed, had now been upgraded to sound so they were pleased at the response the recommendations had been getting. The weak assurance rating was principally because of weaknesses, delays and gaps in process and practice which could lead to a lack of resilience in the arrangements and be difficult to keep levels sustained in the longer term.

The Cultural Projects Manager then ran through the Management Action Plan with the Committee as Members had been chiefly interested in the response to the audit findings. She explained that she was the Designated Safeguarding Officer for the Council and she was joined by the Head of both Cultural and Housing Services which demonstrated the seriousness with which they had taken this matter. In her view, although it was marked as a medium priority, the key recommendation surrounded the development and implementation of an appropriate reporting regime. This would include high level 'buy-in' from Management Team and Members (including the Overview & Scrutiny Committee and the Portfolio Holder). She also ran through the other five recommendations in some detail and outlined the management response and the actions to each.

The following responses were given to Members questions/comments on the Management Action Plan: -

- The scope of this particular audit was the Council's responsibilities under the Children's Act so did focus on the safeguarding of children particularly. There was a Kent and Medway Safeguarding Adult Board which did examine concerns for vulnerable adults as well and there was a desire for the Council's safeguarding policy to be that much broader to reflect overall safeguarding legislation. A wider audit of safeguarding 'in the round' was scheduled for 2017.
- Officers were committed to improving this whole area and the presence of three Senior Officers at the meeting would hopefully demonstrate that commitment. A lot of work had been put in to the Action Plan and Management Team ownership would ensure that this was delivered.

- The target implementation dates in the report were very much 'by' dates and Officers would be pushing on to make a swift response and if they could bring them forward they would.

Resolved:

That the findings of the Safeguarding audit be noted and the Management Action Plan be endorsed.

221 Annual Audit Letter 2014/15

Lisa Robertson introduced the report which included the Annual Audit Letter from the Council's External Auditor's Grant Thornton. The letter was a summary of the work undertaken in 2014/15 and reiterated the positive comments made by the External Auditors at the last meeting, when unqualified opinions on the Council's financial statements and the value for money conclusion were reported. One additional point to note was that the audit certification work on the housing benefit grant claim had now been completed and an unqualified opinion would be given. This was an impressive outcome and placed the Council in the top 20% nationally. Audit fees were also noted. There would be no additional fees for Grant Thornton's audit services and the one outstanding fee related to the certification of pooling of housing capital receipts return was confirmed at the minimum level of £2k.

The Portfolio Holder said he wanted to acknowledge the unqualified opinion on all aspects of the accounts which he considered a remarkable outcome when taking in to account the complexity of the work undertaken to compile this. The Committee agreed to note this and express it's thanks to the Officers involved.

Resolved:

That the External Auditor's Annual Audit Letter be received and noted.

222 Internal Audit Interim Report 2015/16

The Head of Audit Partnership introduced the report which set 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. A colour copy of page 48 of the Agenda which showed the graph in its full context had been circulated.

One item to update on was the outstanding action on the ICT Disaster Recovery audit. This was about running a test of the arrangements which had originally been scheduled for June 2015. This had been prevented because of technical issues and was re-arranged to happen before the end of the calendar year. As a result Internal Audit had been looking to follow this up in January, but that follow up work had been undertaken early to tie in with this meeting and they had learned that the test had been completed successfully in mid-October and the Council was now in negotiations with its provider for annual testing thereafter. Therefore, this recommendation could now be closed. The Portfolio Holder said he welcomed the

update. This had been an area of anxiety for the Committee and he hoped to see the annualised test embedded in processes.

Resolved:

That the Internal Audit Interim Report be received and noted.

223 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 should be completed by the end of this quarter, (the summary version had been approved by the Cabinet in October with the full version coming back for approval in December); and the second to complete work reviewing the Council's risk management procedures which was now complete, subject to appropriate awareness training for Officers which was ongoing.

In response to a question from a Member the Head of Internal Audit advised that the training of staff on risk was progressing as scheduled. The Portfolio Holder said it was important that Managers ensured that the training was cascaded down to their staff to ensure consistency with regard to the new risk management arrangements.

Resolved:

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

224 External Auditor's Update

Emily Hill introduced the report which included a summary of ongoing audit work at Ashford including the good outcome to the audit of the Housing Benefit Grant Claim. She drew particular attention to the fee letter which reported a 25% reduction in fees, the revised guidance from the National Audit Office on the Value for Money conclusion and the new local audit framework.

In response to a question about the increasing reliance on voluntary organisations and whether this was a risk to the Council's resilience, Emily Hill advised that this was part of a different type of model for delivering public services and whilst there were clearly risks involved they were probably no more serious than with any other contractor used by the Council. Risks would need to be mitigated by ensuring that any grants or contracts went through the Council's normal procurement and due diligence arrangements to allow for proper monitoring.

Resolved:

That the report be received and noted and the Committee should receive further briefings on the topical matters raised, either at appropriate Committee pre-briefings or in written briefings between meetings.

225 Annual Report on Reserves and Balances

The Head of Finance introduced the report which had been requested by this Committee last year. The Council had a policy to have a General Fund Reserve of no less than 7.5% of the Council's net budget requirement (£13.7m which equated to a reserve of approximately £1m). The Council also held a number of earmarked reserves that were reserves held for specific purposes, a schedule of those was attached to the report. He advised that a review of reserves and balances was undertaken as part of the scrutiny of the budget and this report would be better placed there going forward.

Resolved:

That the report be received and noted and it be noted that for this year and all future years a review of Reserves and Balances is undertaken as part of the scrutiny of the budget.

226 Reporting for ABC Companies

The report set out the governance arrangements that had been put in place for the ABC Companies, outlining the relationships and structures that had been put in place to manage the Council's interfaces with its Companies. It also discussed the appointment of External Auditors for the Companies and the mechanics of the loan agreement that had been established with the Property Company.

In response to a question about 1 to 1 borrowing by the Property Company and the potential liability for loans in the event of a significant fall in property values, the Deputy Chief Executive advised that the loan facility had been devised to protect the Council's interests as far as was possible in such an event. Ultimately, because the Council was the shareholder, that liability would rest with the Council.

Resolved:

That 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, be noted.

227 Procurement and Appointment of External Auditors

Further to the information item received by this Committee in June, the report provided a further update advising that the Department for Communities and Local Government had recently determined the timing by when Councils must have newly procured External Audit services in place.

Resolved:

That the further update be noted and the Committee should receive another report in the New Year to consider the options more fully, once further guidance is published by CIPFA.

228 Report Tracker and Future Meetings

The Committee noted that the Deputy Chief Executive, Paul Naylor would shortly be moving to flexible retirement and the Head of Finance, Ben Lockwood would be taking up responsibility for the Audit Committee and the Section 151 Officer role.

The Vice-Chairman advised that the Committee would like to have an additional meeting, earlier in June than the one proposed on 30th June, in order to have time to properly consider the Statement of Accounts. Perhaps that meeting could also consider the follow ups from both the Safeguarding and ICT Disaster Recovery audits. The Senior Member Services & Scrutiny Support Officer said he would source a suitable date.

Post Meeting Notes: The date for the additional meeting is confirmed as Thursday 16th June 2016.

Resolved:

That the report be received and noted.

Agenda Item No: 4
Report To: AUDIT COMMITTEE
Date: 15 March 2016
Report Title: DATA PROTECTION 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 data protection obligations. The findings and recommendations of the report have been accepted by officers, and the report includes a completed action plan wherein officers set out plans for improvements to the service.

Key Decision: No

Affected Wards: All

Recommendations: **1. The Audit Committee NOTES the findings of the Data Protection 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: Data Protection Audit Report (CG03(15-16))

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

Report Title: Data Protection

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 obligations under the Data Protection Act 1998 and associated regulations and guidance. This report represents the conclusions of that audit.
2. Since the audit was originally undertaken the Council has undergone a broader restructure meaning the key officers at the time of the review will not, in future, have responsibility for these areas. Present at the meeting will be officers who will take on these responsibilities in future who will be able to answer Members' questions about proposed actions in response to the audit.

Background

3. We began work in October 2015 against the audit brief set out from page 15 of the Audit Report. This sought specifically to examine controls against the responsibilities given to the Council by the Data Protection Act 1998, including managing subject access requests for data and recognising, handling and reporting any breach of requirements. We concluded our work and issued the report in draft in January 2016 (delayed from an original proposal of December 2015 owing to Christmas leave and changing officers responsibilities as part of the broader restructure at the Council).
4. We received a completed action plan from officers and finalised the report on 26 February 2016. Officers accepted the findings of the report and consequently there were no substantial changes in the body of the report between draft and final versions.
5. It is also important to note, when considering the scope, that the audit was not an examination of IT systems and how the authority keeps its data safe from external threat. We have, separately, a review of IT security measures on our plan for 2016/17 (also at this Committee meeting).

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. Some of the consistent themes identified in the report were a lack of clarity on key responsibilities and limited organisation and documentation on monitoring and reporting on breaches. The Council's restructure has meant that new officers

will be responsible for taking data protection forward and giving that clarity of ownership and procedure.

Equalities Impact Assessment

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

Other Options Considered

9. Not applicable

Consultation

10. The audit findings have been discussed and agreed with both the original audit sponsor at the time the work was set out, plus those officers who will take responsibility for Data Protection in future.

Implications Assessment

11. Not Applicable

Handling

12. Not Applicable

Conclusion

13. The report presents for Member comment and enquiry the results of our work on the Council's Data Protection responsibilities.

Portfolio Holder's Views

14. 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 or rich.clarke@midkent.gov.

MID KENT AUDIT

DATA PROTECTION FINAL AUDIT REPORT

February 2016

Assurance Rating: **Weak**

| | | | |
|-----------------------|-----------------|------------------------|-----------------------------|
| Audit Code | ABC-CG03(15-16) | Service | Communications & Technology |
| Senior Auditor | Claire Walker | Head of Service | Rob Neil |
| Head of Audit | Rich Clarke | Chief Executive | John Bunnett |



MID KENT AUDIT

Summary Report

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

The council has documented policies and procedures, also allocated roles and responsibilities, however there are weaknesses as policies are not operated (the monitoring checks) as described and there are no deputy arrangements to provide formal cover in the Data Protection Officer's absence. The Data Protection function is currently subject to staff changes and consideration of future service delivery and resource arrangements.

The Data Protection Policy makes clear commitments on training provision and we found that guidance was available to staff, however training and awareness arrangements are less well established. There is no mandatory post induction refresher requirement, no formal records to evidence training for key staff (such as the Data Protection Officer) and only 58 staff evidenced as having completed the E Learning package.

Compliance with Data Protection requirements is not monitored by the council (the review processes noted in policy and job descriptions) as provided for in key documents. Interviews with various services identified some services with better understanding and application of data protection requirements (such as the Monitoring Centre and Fraud Investigations). We found that the Council's Members Allowance IT Scheme required recipients to register, however only 5/23 were registered. We found that there were no central logs to record statistics and facilitate reporting (Subject Access Requests and Breach Notifications or near misses).

Staff advised that no breaches had been reported to the Information Commissioner. Arising from the absence of an incident / referral log it was not possible to assess the number or nature of any internal referrals made. In addition, the access capability to records is limited to the Data Protection Officer as material is held in E records (personal email and e filing) rather than generic E records to enable authorised deputy access.

Areas to improve

- Policies & Procedures and associated monitoring and review arrangements [R1, R2, R6]
- Reporting, roles & responsibilities and associated record keeping [R3, R4, R8, R10]
- Training [R5]
- Record keeping [R7, R8, R9]

MID KENT AUDIT

Next Steps

At page 10 we describe the 10 recommendations arising from our work, and response from management. We are pleased to note management have agreed to implement the recommendations which we will follow up 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.

Under the procedure agreed with the Audit Committee in September 2015, if the assurance rating of the final report remains as 'weak' this report plus a completed action plan will be presented in full to Members of the Audit Committee.

We have prioritised our recommendations as below:

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 2 | 6 | 1 | 1 |

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

Findings in Context

Our most recent audit work in this area was Data Protection Act review, November 2011. That report concluded that the controls offered a limited level of assurance. Although we have changed the way in which we report ratings, meaning the results are not directly comparable, we consider that the assurance offered by controls in the service has failed to improve since that review. The 2011 management action plan resulted in some changes (for example improvements in physical security) however some concerns are being raised again (such as the need to revise policy and procedures and data retention).

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 Rob Neil, Head of Communications & Technology.

| Audit team and contact details | Report distribution list |
|--|--|
| <p>Head of Audit Partnership Rich Clarke (Rich.Clarke@MidKent.gov.uk)</p> <p>Senior Auditor Claire Walker (Claire.Walker@MidKent.gov.uk)</p> | <p><i>Draft and Final Report</i></p> <p>Rob Neil, Head of Communications & Technology</p> <p>Terry Mortimer, Head of Legal & Democratic Services</p> <p>Paul Naylor, Deputy Chief Executive</p> <p>Ashford BC</p> <p><i>Final Report Only</i></p> <p>John Bunnett, Chief Executive</p> <p>Audit Committee Members</p> |

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MID KENT AUDIT

Detailed Findings

We completed fieldwork during November 2015 to the objectives and using the tests set out in the final audit brief dated September 2015. We include the audit brief at appendix I. We again thank the service for support provided to enable efficient completion of our work. Please note that the timeline has been amended from that set out in the original brief in response to officer requests for additional time to formulate a response to the action plan in the draft report.

Objective 1: To review the appropriateness of the Council's policies and procedures relating to the Data Protection Act

Ashford BC has a documented Data Protection Policy and suite of supporting guidance and policies such as the Bring Your Own Device Policy and the Internet Acceptable Use policy. Although material has been subject to revision the passage of time means that some references (such as the ISO regime) and media developments require further update [R1].

Provisions for operational and organisational checks are embedded in the Data Protection Policy and the Telecommunications & Data Protection Officer's job description (dated 2001) however these checks are not undertaken in practice. The Data Protection Policy provides for regular review, audits, assessments and evaluations on the way that personal information is managed (handling and management of personal information) in particular that "performance with handling personal information is regularly assessed and evaluated". The officer advised that her role was limited to registrations and co-ordinating Subject Access Requests and that the monitoring regime described in her JD had not been applied for some years. [R2].

The Council is currently restructuring its Information Technology function with the loss of the Head of Communications and Technology post (the incumbent Data Protection Officer / Senior Information Risk Officer). At the time of the field work the handover arrangements had yet to be determined. Currently the senior Data Protection role has no formal procedure notes, no deputy arrangement and has sole access to key records (such as potential breach reports and investigation records), through his email account and personal e-filing [R3] [R4].

MID KENT AUDIT

Conclusion: Policies and procedures are documented and available, however they are dated and do not reflect modern media or references. Roles and responsibilities are detailed in job descriptions but they require revision to reflect changes in operation and conduct of roles, and the associated requirements placed on them through policies and procedures. The non performance of advertised compliance checks weakens the council's ability to assess compliance with data protection requirements.

| | |
|--|---------------------------|
| R1: Policy & Procedure | Priority 3: Medium |
| Update and apply policies and procedures | |

| | |
|--|---------------------------|
| R2: Organisational Monitoring & Review | Priority 3: Medium |
| Implement a monitoring and review regime in line with policy commitments | |

| | |
|---|---------------------------|
| R3: Roles & Responsibilities | Priority 3: Medium |
| Revise job descriptions and supporting arrangements (Deputy and Back Up arrangements) | |

| | |
|---|---------------------------|
| R4: Shared Access | Priority 3: Medium |
| Records must be accessible to a minimum of 2 authorised staff | |

MID KENT AUDIT

Objective 2: To establish and review the guidance and training available to staff, and their awareness with regards to Data Protection

Information Commissioner audits of public bodies have identified that training and awareness are key to facilitating compliance with data protection requirements. The Council has limited records to demonstrate training undertaken by key staff and the general workforce. Data Protection Act refresher training is not mandatory once induction is completed. Discussions with staff found that staff recalled receiving training as part of induction but had limited recollection of the areas covered.

The Data Protection Policy states that everyone managing and handling personal information will be “appropriately trained” and that “everyone managing and handling personal information understands that they are contractually responsible for following good data protection practice”. Training has not been delivered as described; records show that 58 staff completed e training and Outlook Calendar references indicated that key staff (the Data Protection officer) had received some training. [R5]. Discussions with staff identified a limited awareness of the available supporting guidance available.

Conclusion: Records and discussions with staff identified little training occurred in practice and that staff awareness was limited.

R5: Training

Priority 2: High

Implement training regime and awareness programme

MID KENT AUDIT

Objective 3: To ascertain whether the council is compliant with the Data Protection Act 1998 and related legislation and guidance

We conducted Interviews with staff in a range of functions to assess organisational and functional awareness of and compliance with data protection requirements. Particular elements, such as Notification, Registration, Subject Access Requests (SARs), and breach notification / handling were reviewed. Discussions with staff also identified that a number of security provisions were in place to safeguard access to data in keeping with those described in policies and procedures.

We found that the Telecommunications & Data Protection Officer had records for two Council data controller registrations; the Council itself and Electoral Registration. We noted that 5 of 23 Members in receipt of IT Allowances (claimed and paid in accordance with the Members IT Allowance Scheme) were registered as data controllers. We noted that arrangements were in progress to remind Members of scheme requirements to register so have made no recommendation as the exercise is already in hand.

We found limited records to support SARs and breach notification / handling, and no central logs of such aspects [R7]. SARs records were held by a number of areas, and varied in the quantity and nature of records held (proof of identification, fees paid, authority for fees waived [R8] and lacked copies of material released). Attempts to ascertain the total number of SARS received through fees paid or waived failed as we found that staff were unsure or inconsistent in where monies were coded and did not keep records of fees waived.

Material relating to potential breaches and related investigations could not be accessed [R6] as it was held in one officer's email account and personal e filing [R4]. Material is not accessible to at least a deputy / approved officer [R4]. The sample emails supplied for audit review were reliant upon officer choice (there being no log from which sample selection could be made) and those provided indicated a degree of informality in processes followed and records of investigations, and the officer confirmed that there were no formal procedures.

The Data Protection Officer is responsible for decisions on whether reports are considered to be "breaches". The sample case supplied for audit review related to an alleged breach of tenant confidentiality (where the tenant refused to accept an offer of a management move) was handled through disciplinary procedures and not treated as a breach or self referred to the Information Commissioner.

Requests for details of reports on discharge of function to Management Team resulted in supply of one report, that advising of the implications arising from the proposed new

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European Directive requirements. The absence of reports does not facilitate organisational review of its compliance with Data Protection [R10].

The suite of policies and guidance contain instructions to staff on security and confidentiality measures such as “clear desk” and “clear screen”. . Discussions with staff and examination of sample records found differences in awareness and application of data protections aspects for example the Risk Register (Health & Safety) had been subject to review and action taken to handle old records; elsewhere, in Housing Options, some case files were kept on desks and in-trays. Discussions with staff (sample services) found that records were retained for longer than necessary as staff were not aware of organisational record retention guidance [R9].

Conclusion: Tests found that compliance with Data Protection requirements varied between services reviewed, with some pockets of good practice (such as the Ashford Monitoring Centre and the Fraud Investigation section), but partially compliant overall. The main areas of weakness related to record retention (e.g. data kept for longer than required, data security in particular storage locations and breach handling arrangements)

| | |
|---|-------------------------|
| R6: Breach Handling | Priority 2: High |
| Formalise and enhance protocols for breach handling | |

| | |
|--|---------------------------|
| R7: Centralised Records | Priority 3: Medium |
| Devise and maintain central records / logs of Subject Access Requests and Breaches (potential and notifications) | |

| | |
|---|------------------------|
| R8: Fee Handling | Priority 4: Low |
| Formalise fee handling and banking arrangements (Subject Access Request fees) | |

| | |
|---|---------------------------|
| R9: Record Handling | Priority 3: Medium |
| Review and revise arrangements for data storage and retention to ensure compliance with Data protection record retention requirements | |

| | |
|--|-----------------|
| R10: Functional Reporting | Advisory |
| Implement a functional reporting process | |

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Recommendations and Action Plan

| R5: Training | | Priority 2: High |
|---|---|-------------------------|
| Implement training regime and awareness programme | | |
| Regular training would increase awareness of data protection issues and facilitate awareness of and compliance with data protection requirements | | |
| Management Response | | |
| There will be two strands to training and awareness – (i) on general data protection issues and responsibilities and (ii) on specific Council policies and procedures. The general training will be directed at all staff and will include an awareness campaign and e-learning. The specific training will need to be based on the data protection policies and procedures that have been updated following review. The specific training will be for the data protection "key officers" that will be identified. The intranet will also be used to make guidance available and to let staff know who to contact for further advice. | | |
| Responsible officer: Joy Cross | Implementation date: April 2016 | |

| R6: Breach Handling | | Priority 2: High |
|---|---|-------------------------|
| Formalise and enhance protocols for breach handling | | |
| Formalised reporting & investigation protocols, and associated records, would ensure consistency of approach and evidence the arrangements to assess, address and action issues and record work undertaken and outcomes | | |
| Management Response | | |
| It is accepted that providing guidance in such instances would improve consistency and provide a framework for decision making. Following up on breaches in order to learn the reasons why they occurred will also be included in order to try and reduce the risk of them reoccurring. The new guidance will be taken forward as part of the review of policies and procedures. Appropriate training and guidance will be prepared thereafter. | | |
| Responsible officer: Nick Clayton | Implementation date: June 2016 (in conjunction with recommendations 1, 2, 9, 8, and 10) | |

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R1: Policy & Procedure

Priority 3: Medium

Update and apply policies and procedures

Revision (main and supporting policies & procedures) would ensure material reflects best practice and enhanced provisions of key aspects such as breach reporting and related investigations. Application of policies would assist in ensuring organisational compliance with DPA requirements.

Management Response

The new policies and procedures will aim to be easy to understand and practical, while highlighting risks and setting out mechanisms for reducing those risks.

Responsible officer:

Nick Clayton

Implementation date:

June 2016 (in conjunction with recommendations 6, 2, 9, 8, and 10)

R2: Organisational Monitoring & Review

Priority 3: Medium

Implement monitoring and review regime in line with policy commitments

Compliance with DPA requirements would be reviewed, assessed and monitored in practice.

Management Response

It is important to learn from experiences in day to day operations in order to reduce the risk of non-compliance with the Data Protection Act and to monitor if policies and procedures are operating as expected. The revised policies and procedures will set out monitoring and review arrangements, bearing that in mind.

Responsible officer:

Nick Clayton

Implementation date:

June 2016 (in conjunction with recommendations 6, 1, 9, 8, and 10)

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| R3: Roles & Responsibilities | | Priority 3: Medium |
|--|--|---------------------------|
| Revise job descriptions and supporting arrangements (Deputy and Back Up arrangements) | | |
| Clarification and revision would assist in developing and formalising the new regime (handover arrangements), modernising roles, and strengthening functional back up / support arrangements | | |
| Management Response | | |
| This will be taken forward as part of the wider restructure of the Council as well as the revised policies and procedures. | | |
| Responsible officer: Joy Cross – Job descriptions and identifying key workers Paul Courtine – Interim point of contact pending appointment of data protection officer | Implementation date: July 2016 | |

| R4: Shared Access | | Priority 3: Medium |
|--|--|---------------------------|
| Records must be accessible to a minimum of 2 authorised staff | | |
| Functional resilience as material would be available to authorised staff | | |
| Management Response | | |
| This will be taken forward as part of the wider restructure of the Council as well as the revised policies and procedures. | | |
| Responsible officer: Data Protection Officer | Implementation date: July 2016 | |

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| R7: Centralised Records | | Priority 3: Medium |
|---|--|---------------------------|
| Devise and maintain central records / logs of Subject Access Requests and Breaches (potential and notifications) | | |
| Absence of central records of cases makes it difficult to monitor caseload and resource implications (SARs & other requests) | | |
| Management Response | | |
| This will be taken forward as part of the wider restructure of the Council as well as the revised policies and procedures. Scoping for use of the FOI tracker as a log for subject access requests is already underway. | | |
| Responsible officer: Paul Courtine Data Protection Officer | Implementation date: Until July 2016 From July 2016 | |

| R9: Record Handling | | Priority 3: Medium |
|---|---|---------------------------|
| Review and revise arrangements for data storage and retention to ensure compliance with Data protection record retention requirements | | |
| Increased awareness of data retention and storage arrangements would improve compliance with data protection requirements | | |
| Management Response | | |
| This will be taken forward as part of the revised policies and procedures and will be an involved process due the number of different records kept and differing requirements for retention. It should though be possible to set certain retention periods relatively soon, especially where the issue was already under consideration prior to this report (e.g. emails in the archive). | | |
| Responsible officer: Nick Clayton | Implementation date: June 2016 (in conjunction with recommendations 6, 1, 2, 8, and 10) | |

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| R8: Fee Handling | | Priority 4: Low |
|--|---|------------------------|
| Formalise fee handling and banking arrangements (Subject Access Request fees) | | |
| <p>Arrangements for waiving fees should ensure consistency of approach and appropriate authority for course of action. Monies received should be coded consistently to facilitate their identification</p> | | |
| Management Response | | |
| <p>Not requiring payment of the £10 fee results in the request not amounting to a subject access request. This can facilitate providing a reply and therefore be both in the interests of the requestor (e.g. speedier reply) and the Council (e.g. less administration). The financial consequences of foregoing the £10 fee are negligible given the low number of subject access requests in the first place. Guidance for staff on fee handling and banking will though be taken forward as part of the revised policies and procedures.</p> | | |
| <p>Responsible officer: Nick Clayton</p> | <p>Implementation date: June 2016 (in conjunction with recommendations 6, 1, 2, 9, and 10)</p> | |

| R10: Functional Reporting | | Advisory |
|--|---|-----------------|
| Implement a functional reporting process | | |
| <p>A periodic report on discharge of DPA aspects would enable Management Team to assess organisational compliance and discharge their responsibilities</p> | | |
| Management Response | | |
| <p>As part of the restructure of the organisation, a new post holder with responsibility for data protection will be identified. One of their roles is likely to be reporting to Management Team on a regular basis in relation to data protection. This will include updates on issues with the organisation and elsewhere (e.g. new legislation) and statistical information (e.g. the number of subject access requests). As an additional means of raising the profile of data protection within the organisation and emphasising its importance, it is intended to designate a member of Management Team as a data protection "champion".</p> | | |
| <p>Responsible officer: Nick Clayton</p> <p>Terry Mortimer – Data protection champion on Management Team</p> | <p>Implementation date: June 2016 (in conjunction with recommendations 6, 1, 2, 9 and 8) July 2016</p> | |

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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 Data Protection Act 1998 (DPA) governs the collection, processing, use and security of personal data, while the Information Commissioner's Office (ICO) regulates the compliance with the Act. Keeping within these responsibilities requires continuing review and compliance, including appropriate management of risks as they arise. Legal compliance is therefore a fundamental duty of the Council and is crucial to its success in achieving its strategic objectives.

The Communications & Technology Service is responsible for the provision of advice to ensure that the Council complies with its responsibilities under the various items of information legislation; Freedom of Information, Environmental Information Regulations and data protection issues.

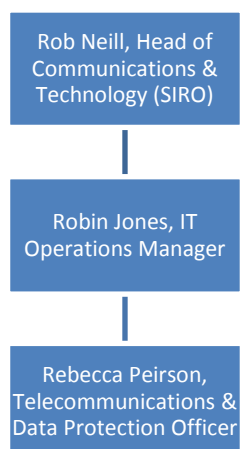
The Head of Communications & Technology (HCT) is the Senior Information Risk Owner (SIRO) and the Data Protection Officer. HCT is supported in day today practice by the Telecommunications & Data Protection Officer.

Successful management of Data Protection will help the Council to

- Ensure it remains in compliance with its legal obligations,
- Make best use of its information assets,
- Share information in line with accepted standards for common benefit.

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Service Structure Chart



About the Audit

The Data Protection Act (DPA) governs the collection, retention and use of personal data and is supported by a number of other regulations, Codes of Practice and guidance. From April 2010 the Information Commissioners' Office (ICO) were given powers to impose financial penalties of up to £500k for serious breaches in DPA legislation.

The audit primarily seeks to establish the Councils' compliance with the statutory requirements of the Data Protection Act, relevant legislation and guidance.

The previous audit in 2011-12 gave a Limited level of assurance. The main findings included a need for improved handling of subject access requests, promotion of the DPA throughout the council, and strengthening of physical security arrangements.

Audit Objectives

1. To review the appropriateness of the Council's policies and procedures relating to the Data Protection Act
2. To establish and review the guidance and training available to staff, and their awareness with regards to Data Protection
3. To ascertain whether the council is compliant with the Data Protection Act 1998 and related legislation and guidance

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Audit Scope¹

In order to establish compliance with the requirements of the Act, the audit will consider the following areas:

1. Data protection legislation and guidance
2. Data protection policy and procedures
3. Data protection training
4. Obtaining, processing and update of personal data
5. Disclosures (request handling processes, application of exemptions, and associated records)
6. Retention of personal data
7. Organisational security of data / breach protocols
8. Transfer and sharing of personal data
9. Arrangements with contractors / third parties
10. Management of data

Audit Testing

1. Review the Council's Data Protection Policy and other relevant guidance
2. Conduct interviews with key officers to establish and document the roles and responsibilities for data protection & establish their awareness of and compliance with data protection principles
3. Review the data protection training and guidance provided to officers & members
4. Review, for a sample of service areas, whether there is clarity around why data is being collected and how it will be processed fairly and lawfully
5. Test a sample of subject access requests received since January 2015 & ascertain whether these requests were processed appropriately
6. Review, for a sample of service areas, whether personal data is kept and shared in accordance with the DPA principles (adequate, relevant, not excessive, accurate, kept up to date, not kept longer than necessary, used for purposes for which it was obtained / consent given or relevant legal exemption applied)
7. Review the measures taken against unlawful or unauthorised processing an accidental loss, destruction or damage of data

¹ This scope is current as at the date of the document. In the event that our testing identifies further areas of audit interest we may modify/extend testing but will discuss modifications with you before undertaking additional work.

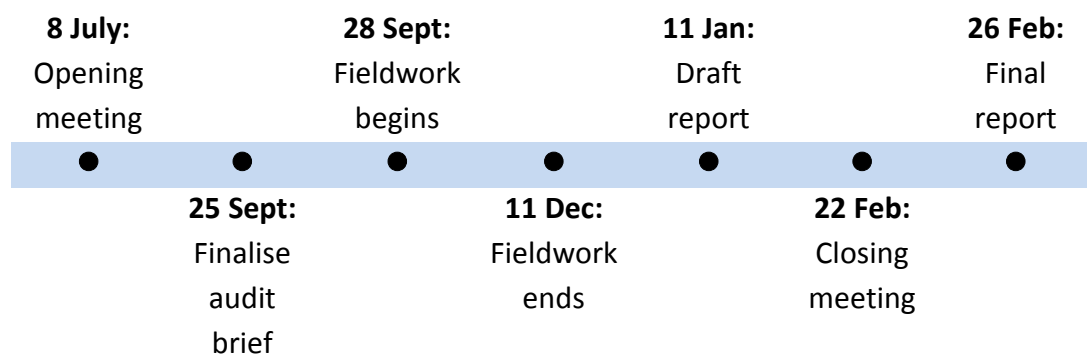
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Audit Resources

Based on the objectives, scope and testing identified we expect this review will require **15 days** of audit resources, broadly divided as follows:

| Audit Task | Audit Resource | Number of Days (Projected) |
|----------------------|----------------|----------------------------|
| Planning | Claire Walker | 3.5 |
| Fieldwork | Claire Walker | 7.5 |
| Reporting | Claire Walker | 2.5 |
| Supervision & Review | Rich Clarke | 1.5 |
| Total | | 15 |

Audit Timeline (Revised December 2015)



Council Resources required by audit

| Key Contacts | |
|-----------------|--|
| Rob Neil | Head of Communications & Technology |
| Rebecca Pierson | Telecommunications & Data protection Officer |

| Documents required | |
|------------------------------------|---------------------------------|
| Subject Access Reports | Data Subject Requests |
| Training Records | Policies, Guidance & Procedures |
| DPA Log / related records | Key Staff Job Descriptions |
| ICO Communications | Sample Contracts |
| Breaches / Investigation Records | Notifications / Registrations |
| Fair Processing Notices / Consents | Reports e.g. Management Team |

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Appendix II: Assurance & Priority level definitions

Assurance Ratings

| Full Definition | Short Description |
|--|---|
| Strong – 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. | Service/system is performing well |
| Sound – 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. | Service/system is operating effectively |
| Weak – 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. | Service/system requires support to consistently operate effectively |
| Poor – 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. | Service/system is not operating effectively |

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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: 15 March 2016
Report Title: Presentation of Financial Statements
Report Author: Maria Seddon – Principal Accountant



Summary: The Council is required to follow statutory guidance for the publication of its accounts. Each year, this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2015/16. In addition, the report reviews on the lessons learnt from the accounts process in 2014/15.

The Council has completed a review of its accounting policies that will be used for the publication of the statement of accounts; they are presented in Appendix A.

Key Decision: No

Affected Wards: None specifically

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

- i. Note the report**
- ii. Approve the accounting policies for the 2015/16 accounts in Appendix A**

Financial Implications: None

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

Equalities Impact Assessment No

Other Material Implications: None

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

Report Title: Presentation of Financial Statements

Purpose of the Report

1. To update members on the progress of the production of the Statement of Accounts 2015/16 (the Statement) and how changes are to be managed and implemented.

Issue to be Decided

2. Members are asked to note the report and approve the 2015/16 Accounting Policies.

Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March by the end of June. These are then audited by the Council's external auditor and an opinion issued by the end of September.
4. Following the new Accounts and Audit regulation the Council is to close early this year to aid the transition to earlier closing. This will result in the annual statement of accounts for the financial year ending the 31 March being produced by the end of May. The Accounts will then be audited by Grant Thornton during June with an opinion issued by the end of July.
5. This year there are a few changes to the Code (Code of Practice on Local Authorities Accounting) for incorporation into the final accounts for 2015/16.

2014/15 Statement of Accounts Audit

6. The 2014/15 Statement of Accounts was audited by Grant Thornton, appointed by the National Audit Office. The third year the team audited the Council's accounts.
7. Overall officers and the external auditors were happy with both the audit process and the working relationship during the audit. Regular meetings throughout the audit were held so any finding could be fed back and worked through together. These meetings will be maintained for the 2015/16 closing process to ensure the process runs as smoothly this year.
8. There have been a change to the Grant Thornton audit team this year with a new Audit lead, Elizabeth Olive, Engagement lead, taking over from Emily Hill. The Audit Manager Lisa Robertson and the Principal Auditor, Neil Robertson are still in place this year and officers are confident that the transition will run smoothly.

Faster Closing and the Closing Timetable

9. There has been a substantial amount of work done over the last year to look at ways to reduce the time it takes to close the accounts to aid the transition

to faster closing. The Accountancy team have implemented many changes into the closing process and have agreed with Grant Thornton that a draft statement will be submitted on 31 May 2016, some of the changes include:

- Only manual accruals exceeding £5,000 will be processed
 - Non- material balance sheet codes will be closed before year end
 - Asset valuation at the end of the year (previously valued at the start of the year) to avoid restating at year end
 - Working closely with departments to produce information on time i.e Council House capital expenditure
 - Close accounts on estimates if information is not available until later in the process.
10. The Accounting Policies in Appendix A have been updated to reflect these changes.
11. The target is to have a completed final draft by 29 May, key deadlines below:
- Service Accounts and Collection Fund to be closed by 22 April
 - Balance Sheet Codes to be closed by 28 April
 - Draft Statement by 27 May

Accounting Changes/Updates for 2015/16

12. The most significant change this year is the adoption of IFRS 13 Fair Value Measurement that will affect the measure of assets that are valued at fair value. This adoption will be particularly relevant to the measurement and disclosure of financial instruments, surplus assets and investment properties.
13. Surplus assets will need to be measured under the new definition of fair value which reflects the highest and best use from the market participant perspective.
14. The assets will be reviewed during the closing process to ensure they are classified and the disclosures are presented correctly.
15. For the 2015/16 Statement of Accounts there are also a number of smaller changes to the presentation of disclosures in the statement and some changes to accounting policies.
16. Grant Thornton has also highlighted a need for Local Authorities to estimate a provision for un-lodged appeals if material. The accountancy team will work with the audit team to establish an appropriate provision or contingent liability for 2015/16 statement.

Conclusion

17. Members are asked to note the changes to the final accounts process and approve the Accounting Policies.

Portfolio Holder Comment

18. To be given at the meeting.

Contact: Maria Seddon

Email: maria.seddon@ashford.gov.uk

Notes to the Core Financial Statements

1. Accounting Policies

General Principles

The Statement of Accounts summarises the Authorities transactions for the 2015/16 financial year and its position at the year ending 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require to be prepared in accordance with proper accounting practices. These practices primarily comprise the 'Code of Practice on Local Authority Accounting in the United Kingdom 2015/16' (the Code) and the 'Service Reporting Code of Practice 2015/16', supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1. Accounting Concepts and Conventions

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

Qualitative characteristics are the attributes that make the information provided within this Statement of Accounts useful to users. The International Accounting Standards Board (IASB) Framework, sets out the two fundamental qualitative characteristics and four enhancing qualitative characteristics of financial statements, which have been adopted by the Code:

- Fundamental
 - relevance
 - faithful representation
- Enhancing
 - comparability
 - verifiability
 - timeliness
 - understandability

The Code also includes consideration of materiality as a qualitative characteristic, and the Framework considers it as part of the fundamental characteristic of relevance.

2. Accruals of Income and Expenditure

With the exception of the Cash Flow Statement, including its notes, and the Collection Fund, the Statement of Accounts is presented on an accruals basis.

The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges and rents due from customers are accounted

for as income at the date the Council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where income and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet, where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. There is a de-minis limit for manual accruals (not automatic accruals) of £5,000 to aid faster closing, transactions below this limit are not accrued for as they are deemed not material to the understanding of these accounts.

3. Estimation Techniques

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these are used are contained in the relevant Note to the Accounts. Where a change in an estimation technique is material, an explanation is provided of the change and its effect on the results for the current period.

4. Costs of Internal Support Services

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

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

5. Council Tax and National Non-Domestic Rates

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rates income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rates surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves on the General Fund balance.

The council, as billing authority, recognises the creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

6. **Charges to Revenue**

Services, Support Services, and Trading Accounts are debited with amounts to record the cost of holding non-current assets used in the provision of services.

These amounts include the annual provision for depreciation, certain revaluation gains/losses and impairment losses and the amortisation of intangible assets. The amounts are subsequently reversed in the Movement in Reserves Statement to the Capital Adjustment Account so that they do not impact on the amounts required from local taxation.

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

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

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

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

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

8. **Government Grants and Contributions**

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

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

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

9. **VAT**

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

10. **Heritage Assets**

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

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

These assets have been declared surplus to the Council's operational requirements, are being actively marketed for disposal and have an estimated sale date within twelve months of the balance sheet date. They are reported on the Balance Sheet date at the lower of the carrying amount or the fair value (market value) of the asset less the costs to sell the asset. Assets held for sale are not subject to depreciation. Potential 'Right-to-buy' sales are not accounted for until the date of sale as they are not actively marketed in any conventional way.

12. **Intangible Assets**

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

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

13. **Investment Assets**

These assets are held solely to earn rentals and/or capital appreciation. The property cannot be used for any other purpose to be classed as an investment asset.

They are held initially at cost and subsequently at fair value being the price that would be received to sell such an asset.

Properties are not depreciated but are revalued annually according to market conditions at the year-end.

14. **Property, plant and equipment**

14.1. **Recognition**

All expenditure on the acquisition, creation, or enhancement of these assets is capitalised on an accruals basis. These assets are depreciated on a straight line basis.

14.2. **Recognition Definition**

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

The category is split into seven sub categories.

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

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

14.3. **Council dwellings**

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

An annual valuation is carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institute of Chartered Surveyors (RICS) as at 31 March. Material changes will be reflected in the Accounts if they arise after the valuation.

14.4. **Other Land and Buildings**

These assets are held on the balance sheet initially at cost however are revalued and updated with a desktop revaluation annually. All property and land will be fully valued at least once within the 5 year cycle.

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

14.5. **Vehicles, Plant, Furniture and Equipment**

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

14.6. **Infrastructure Assets**

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

14.7. **Community Assets**

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

14.8. **Assets under Construction**

This covers assets currently not yet ready for operational purposes. The Council does not depreciate nor revalue assets under construction. These asset are held at cost on the balance sheet.

14.9. **Surplus Assets**

These assets are not being used to deliver services and are held at fair value which is the price that would be receivable if sold

14.10. **Valuations**

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

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

On revaluation, accumulated depreciation is written out.

14.11. **Depreciation**

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

- All assets with a finite useful life are depreciated on a straight-line basis over the asset life. The life of buildings is reviewed as part of the asset revaluation. The life of vehicles, plant and equipment is generally taken to be five years, unless evidence exists to support a longer or shorter life.
- Newly acquired assets are depreciated in year one, starting in the quarter following their purchase; assets in the course of construction are not depreciated until they are ready for use, starting in the quarter following their completion.
- In accordance with recognised accounting practice, land owned by this Council is not depreciated.

International Financing Reporting Standards (IFRS) require the consideration of componentisation for material items of property, plant and equipment, where they are of a material financial nature or have significantly differing life expectancies. For componentisation to be considered, the Council has set a minimum asset value of £1,000,000 and, then, separate depreciation is only calculated where a component size is at least 10% of the value.

For Council Dwellings, the Code allows authorities to use the Major Repairs Allowance as a proxy for depreciation for a five year period from 2012/13.

Council Dwellings are revalued annually. Other HRA land and property are valued as above.

14.12. Impairment of Non-current Assets

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

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

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

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

14.13. Gains or Losses on Disposal of Property Plant and Equipment

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

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

15. Leases

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

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

15.1. Finance Leases

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

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

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

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

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

15.2. Operating Leases

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

15.3. Embedded Leases

These are assets, which although not owned by the Council, are used primarily by the authority for service provision.

Where this applies, assets are recognised in the Balance Sheet at the net book value and offset by a deferred liability. The lease charge then forms part of the contract payment on behalf of these assets, on a straight-line basis over the life of the asset.

16. Current Assets and Liabilities

16.1. Short term Debtors and Creditors

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

16.2. Inventories

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

16.3. Impairment Allowance for Bad and Doubtful Debts

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

17. Contingent Assets and Contingent Liabilities

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

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

18. Short term and long term Provisions

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

19. Reserves

The Council holds Usable and Unusable Reserves. Usable Reserves give the Council discretion to meet expenditure without having a direct impact on Council Tax. In contrast, Unusable Reserves do not give the Council such discretion and are kept to manage the accounting processes for non-current assets, financial instruments and employee benefits.

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

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

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

20. **Employee Benefits**

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

20.1. **Benefits payable during employment**

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

Where considered of a material nature these are accrued.

20.2. **Termination benefits including Exit Packages**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. These are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee, the costs of redundancy are accrued to the year that the notice is served, but other costs will be charged to the year they are incurred. These costs are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement where the Council is committed to the termination of employment.

20.3. **Post-employment benefits**

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

- Pension liabilities, attributable to the Council, are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.6% based on the indicative rate of return.
- The assets of the pension fund attributable to the Council are included on the Balance Sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;

- Unitised securities – current bid price;
- Property – market value.
- The change in net pensions liability is analysed into five components:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/ (credited) to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the assumptions have been updated - debited to the Comprehensive Income and Expenditure Statement.

Under IAS 19, the Council recognises, as an asset or liability, the surplus/deficit in pension costs calculated in accordance with the standard. This surplus/deficit is the excess/shortfall of the value of assets when compared to the present value of the pension liabilities. Where the contributions paid into the Pension Fund do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from the Pension Reserve together with any actuarial gains/losses. The difference between the recognised net pension liability and the amounts attributed to this Council in Kent County Pension Fund are shown in the Balance Sheet as Pensions Liability and this is offset by the Pensions Reserve (an adverse balance).

The Local Government Pension Scheme, applicable to this Council, is administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets over the average future working life of its employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2013 and changes to contribution rates as a result of that valuation did take effect on 1 April 2014.

21. **Financial Instruments**

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

Detailed disclosure of the Council's holding of Financial Instruments is included in Note 17 on page **Error! Bookmark not defined.**

21.1. **Financial Liabilities**

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

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

21.2. **Financial Assets**

Financial assets are classified into two types:

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

21.3. **Loans and Receivables**

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

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

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

21.4. Available-for-sale Assets

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

Values are based on the following principles:

- instruments with quoted market prices – the market price;
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

21.5. Credit Risk

The Code requires Authorities to estimate the “Fair Value” of their Financial Instruments and compare them with the carrying amounts which appear on the Balance Sheet. The Fair Value estimate will include the future discounted cash flows associated with the Council’s Financial Instruments as at 31 March and should reflect prevailing interest rates as at that date.

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

- (a) Credit risk
- (b) Liquidity risk
- (c) Market risk

The Code requires Authorities to produce a sensitivity analysis, detailing the impact of a 1% interest rate change. A full assessment of these risks, including the sensitivity analysis, is included in Note 17 on page **Error! Bookmark not defined.**

These disclosure requirements are equally applicable to outstanding debtors, see Note 19 on page **Error! Bookmark not defined.** for an age analysis of debtors. In addition to this, a provision for bad debts is also included in the Statement.

22. **Cash and Cash Equivalents**

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

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

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

The original recognition of these Property Plant and Equipments was balanced by the recognition of a liability for the amounts due to the scheme operator to pay for the assets net of any capital contributions made.

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

Property Plant and Equipments recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

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

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

24. **Group Accounts**

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

This Council has undertaken an exercise examining all its partnership arrangements and workings with other undertakings. The Council currently has two subsidiary companies, A Better Choice Building Consultancy and A Better Choice for Property Company.

When considering group accounts the Council will consider qualitative and quantitative factors:

See note 27 for details on Group Accounting relating to this financial year.

1. Qualitative:
 - a. Does the Council depend significantly on the entities for the continued provision of its statutory services?
 - b. Is there political concern about the level to which the Council is exposed to commercial risk?
 - c. Has there been any concern about the extent to which the Council has passed on control of its assets to other parties?
2. Quantitative:
 - a. Are the activities of the entities themselves significant to the representation of the operational activities of the Council?
 - b. Is the gross value of the investment in other entities significant in terms of the authorities Balance Sheet?
 - c. Is the gross value of the borrowings or other liabilities of the entities significant in terms of the Council's Balance Sheet?
 - d. Would the adjustment to Usable Reserves be significant on consolidation?

25. Exceptional Items and Prior Year Adjustments

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

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

26. Events after the Balance Sheet Date

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

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

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

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

Agenda Item No: 6
Report To: AUDIT COMMITTEE
Date: 15 MARCH 2016
Report Title: INTERNAL AUDIT CHARTER 2016/17
Report Author: Rich Clarke



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|-----------------|--|
| Summary: | The report sets out the Internal Audit Charter covering the work Mid Kent Audit undertakes at Ashford Borough Council. The Charter, and its annual review, is a requirement of Public Sector Internal Audit Standards. For 2016/17, aside from minor updates, the most significant change is expansion of the potential scope of audit's work as outlined by new guidance issued by the Institute of Internal Audit. |
|-----------------|--|

Key Decision: No

Affected Wards: All

Recommendations:

- 1. The Committee APPROVES the Internal Audit Charter 2016/17**
- 2. The Committee NOTES the Head of Audit Partnership's view that the Partnership is operating with sufficient independence and freedom from managerial interference to fulfil its responsibilities in line with Public Sector Internal Audit Standards, and will continue to do so.**

Policy Overview: Not Applicable

Financial Implications: Not Applicable

Risk Assessment: No

EIA: No

Other Implications: Not Applicable

Exemptions :

Background Papers: Internal Audit Charter 2016/17 (track changes and clear versions)

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Report Title: Internal Audit Charter 2016/17

Purpose of the Report

1. To report is provided in order to allow the Committee to consider and approve the revised Internal Audit Charter for 2016/17.

Background

2. An Audit Charter is a requirement of Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the purpose, authority and responsibility of the service. A partial extract, giving an introduction to the position of the Charter within the Standards is below:

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

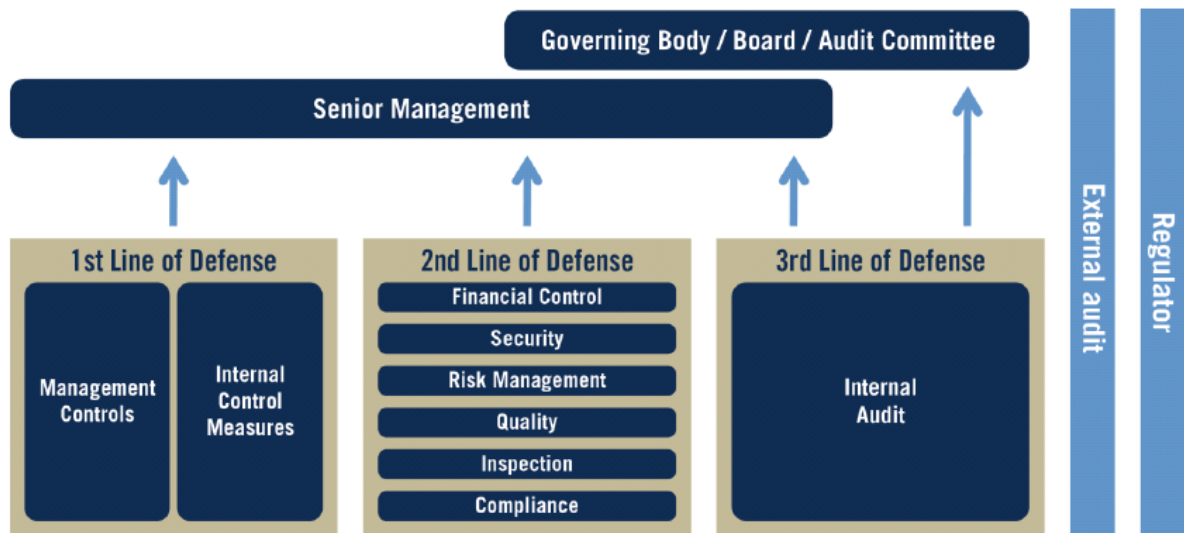
The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

3. In March 2015 this Committee approved the 2015/16 Charter which was scheduled to be revised and, if necessary, updated each year. This current report includes proposed updates to the 2016/17 Charter.
4. Some of the updates for 2016/17 are merely taking the opportunity of a revision to tidy up the document. This includes correcting one or two typographical errors and standardising the terminology (for example, using “Audit Partnership” to refer specifically to this service and leaving “internal audit” to denote the practice of internal audit more generally).
5. The more substantial part of the update seeks to build on Supplemental Guidance issued recently by the Institute of Internal Audit on how and whether internal audit can take up broader roles within an organisation. These broader roles are often referred to as ‘second line of defence’ roles.
6. The ‘three lines of defence’ model is commonly used to describe controls existing within an organisation and is summarised in the diagram below (extracted from the IIA Guidance).

Figure 1



7. Traditionally, Internal Audit operates solely within the third line and that is the norm in many sectors (even most non-Local Government parts of the public sector). Indeed, the Audit Standards are written in the expectation that internal audit will not have any role outside the third line which may impede (or appear to impede) its independence.
8. However, the global IIA has been under pressure recently from, among others, the UK Internal Audit Standards Advisory Board (which includes the Mid Kent Head of Audit) to recognise that in many organisations a good audit function could successfully play a number of roles, and that Standards could usefully acknowledge and inform those roles. In particular, the IASAB sought to avoid a

situation where existing guidance could be read to forbid auditors from undertaking those roles even where there are clear benefits to them doing so.

9. In response, the IIA has now issued a Supplemental Guidance report entitled “Internal Audit and the Second Line of Defence”. That Guidance acknowledges that audit services may often possess the skills, knowledge and expertise to successfully fulfil certain second line of defence roles and doing so could be beneficial especially in smaller organisations. Fundamentally, it acknowledges that organisations can – provided they do so knowingly and having weighed up the benefits – accept certain risks to the independence and objectivity of audit.
10. A key component of accepting those risks is being aware of the safeguards to independence that would operate, and having those safeguards acknowledged and approved by the Audit Committee. The more substantive amendments proposed to the Charter set out those safeguards.
11. Note that, at present, audit does not occupy any roles that comprise second line of defence functions. The Charter sets out the safeguards that would operate in the event of the Audit Partnership being asked to undertake those roles by Management. In particular, the Charter considers the safeguards that would operate if the Audit Partnership were to play a more prominent role, including ownership of relevant corporate policies.
12. To be clear, the Head of Audit Partnership is satisfied that the Partnership currently operates with required independence and freedom from interference and that it would continue to do so, subject to the described safeguards, in the event of being asked to take on further responsibilities. Consistent with the Public Sector Internal Audit Standards, the Head of Audit Partnership will contact Members immediately in the event of significant threat to independence or interference from Management..

Risk Assessment

13. Not applicable.

Equalities Impact Assessment

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

Other Options Considered

15. The Audit Committee as part of its terms of reference must maintain oversight of the internal audit function and its activities. The Charter proposed sets out the basis on which the function operates. We recommend no alternative course of action. However, the Committee may wish to make further comment on the nature of safeguards proposed and, potentially, request to see further reports in the event of the Audit Partnership being asked to take on second line of defence roles.

Consultation

16. The Charter was shared in draft with the Section 151 Officer through the Shared Service Board.

Implications Assessment

17. Not Applicable

Handling

18. Not Applicable

Conclusion

19. We propose that the Audit Committee approve the Internal Audit Charter for 2016/17.

Portfolio Holder's Views

20. The portfolio holder with responsibility for audit is a member of this Committee.

Contact: Rich Clarke Tel: (01233) 330442

Email: richard.clarke@ashford.gov.uk or rich.clarke@midkent.gov.uk

MID KENT AUDIT

Internal Audit Charter

(2016/17 Update Track Changes Version)

Ashford Borough Council



Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Ashford Borough Council (the 'Council'). The Charter establishes ~~internal audit~~ the Audit Partnership's position within the authority, including the nature of the Head of Audit Partnership's functional reporting relationships. The Charter also authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of internal audit activities.
2. Final approval of the Charter resides with the Audit Committee, but it will be reviewed each year by the Head of Audit Partnership in consultation with the Audit Partnership Board.

Comment [RC1]: Change to harmonise terminology in the document.

Mission

3. The Audit Partnership acknowledges and aspires to achieving the mission of Internal Auditing provided by the Institute of Internal Auditors (IIA):

To enhance and protect organisational value by providing stakeholders with risk based ~~and~~ objective ~~and reliable~~ assurance, advice and ~~insight~~.

Comment [RC2]: Minor change to reflect updates to the Internal Audit Mission in the International Professional Practices Framework (IPPF) launched in July 2015.

Scope of work

4. The scope of the Audit Partnership's work includes, in the first instance, tasks in support of the annual Head of Internal Audit Opinion. This work covers three areas:

Internal Control

5. 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.

Corporate Governance

6. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

Risk Management

7. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
8. In addition to those three core areas the Audit Partnership may, subject to specific arrangements, undertake engagements in the areas of counter fraud, operational risk management or advisory as discussed elsewhere in this Charter.

Authority of internal audit

9. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations ~~2011~~ 2015 (the 'Regulations') which require the Council to ~~maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices, evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.~~
10. Deriving authority from those Regulations and those authorising this Charter, the Audit Partnership has free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its scope.
11. To enable full discharge of its duties, the Head of Audit Partnership and his team are authorised to:
- Have a right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all functions, records, property and personnel;
 - Obtain assistance where necessary from Council officers and contractors involved in subject of audit engagements.
12. The Head of Audit Partnership and his team are not authorised to perform any operational duties for the Council, initiate or approve accounting transactions (except where directly related to the administration of the service) and direct the activities of any Council employee (except insofar as they have been appropriately assigned to assist engagements or as described within the safeguards set out in this Charter).

Comment [RC3]: Wording updated to reflect revised R5 in 2015 Regulations.

Responsibility

13. The Head of Audit Partnership and his team have responsibility to undertake their work at all times in accordance with the Public Sector Internal Audit Standards (the 'Standards') ~~and~~ the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of internal audit. In addition, those members of the team who have membership of professional bodies will comply with the relevant requirements of that organisation. Undertaking work in accordance with the Standards will include:
- Developing a flexible risk-based audit strategy and annual plan in consultation with senior management and presented annually to the Audit Committee for review and approval. The Audit Committee will also be invited to review and approve significant changes to the plan;
 - Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including escalation of items of significant risk;
 - Issuing period reports to senior management and the Audit Committee summarising results of internal audit work;
 - Continuing liaison with the Council's external auditors and other assurance providers to seek optimal assurance coverage;

- Communicating regularly with relevant stakeholders on progress of the [internal audit service](#)[Audit Partnership](#), its work and findings; and
- Keeping the Shared Services Board (and so, the [Deputy Chief Executive](#)[Section 151 Officer](#)) informed on the performance of the internal audit service.

Reporting lines

14. The Head of Audit Partnership has responsibility for day to day management of the [internal audit team](#)[Audit Partnership](#). The Head of Audit Partnership reports administratively to the Director of Mid Kent Services and, with respect to activities undertaken at the Council, reports functionally to the [Deputy Chief Executive](#)[Section 151 Officer](#) as the Council's representative on the Audit Partnership Board. Organisationally, the Head of Audit Partnership reports to the Audit Committee. The Head of Audit Partnership also has a direct right of access to the [Interim](#) Chief Executive as and when required.
15. Should the Head of Audit Partnership not be satisfied with the response of senior management to or engagement with a given audit review this will be highlighted to the relevant Head of Service in the first instance and escalated to the Audit Committee if the matter remains unresolved.

Independence and objectivity

16. The [internal audit service](#)[Audit Partnership](#) is and will remain free from interference in determining the scope and nature of its work and communicating its results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least annually, in summary reports to the Audit Committee. [The summary reports will consider and report separately to the Committee on each area of the Audit Partnership's functions.](#)

Accountability

17. The Head of Audit Partnership, in the discharge of his duties, will be accountable to the Audit Committee and the [Deputy Chief Executive](#)[Section 151 Officer](#) (through the Audit Partnership Board). This will include the provision of an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

18. To be effective, the [internal audit service](#)[Audit Partnership](#) requires full co-operation of senior management. In approval of this Charter the Audit Committee and the [Deputy Chief](#)[Section 151 Officer](#) Executive direct management to co-operate with [internal audit](#)[the Audit Partnership](#) in the delivery of the service. This includes, but is not limited to, agreeing suitable briefs for audit engagements, acting as audit sponsors, providing access to appropriate records, personnel and systems, responding to draft reports and implementing management actions in line with agreed timescales.

19. Senior management also undertakes to keep the ~~internal audit service~~Audit Partnership abreast of significant proposed changes in processes, systems or organisation, newly identified significant risks and all suspected or detected fraud, corruption or impropriety.
20. Senior management will also ensure that the ~~internal audit service~~Audit Partnership has access to sufficient resources to fulfil the audit plan as directed by the Audit Committee. Responsibility for arranging and deploying resources in fulfilment of the plan rests with the Head of Audit Partnership.

Other Work

Consultancy

21. The Standards allow that Internal Audit resource may sometimes be more usefully focused towards providing advice rather than assurance. Where appropriate, the service may act in a consultancy capacity by giving guidance, providing that:
 - The objectives of the engagement address governance, risk management or internal control,
 - The request has been approved by the ~~Deputy Chief Executive (or delegated officer)~~a member of the Operational Management Team,
 - The service has the right skills, experience and available resource, and
 - ~~Internal audit~~The Audit Partnership's involvement will not constitute a conflict of interest, compromise the appearance or fact of its independence and will not involve assuming a management role in providing advice.
22. The Head of Audit Partnership is responsible for ensuring all requests are reviewed in accordance with the above criteria and for making the final decision. The specific role of ~~Internal Audit~~the Audit Partnership in any particular engagement will be agreed with the sponsor, documented within the assignment plan and reported to the Audit Committee at the next opportunity.
23. With respect to significant requests, defined as those which require the purchase of additional resources or major amendment to the agreed audit plan, the Head of Audit Partnership will consult the Chair of the Audit Committee before accepting the engagement.

Risk Management

24. ~~Internal Audit~~The Audit Partnership's role is Risk Management will be guided by the Institute of Internal Auditors position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* ~~and documented in the Council's Risk Management Strategy~~. ~~Internal Audit~~The Audit Partnership will not undertake roles defined as inappropriate by that guidance. ~~Where Internal Audit undertake roles defined as 'legitimate internal audit roles with safeguards' the~~

~~nature and extent of those safeguards will be agreed with the Deputy Chief Executive and reported to the Audit Committee.~~

25. The position paper lists the following as legitimate internal audit roles with safeguards:

- Co-ordinating risk management activities,
- Consolidated risk reporting,
- Developing a risk approach for approval and its subsequent maintenance,
- Facilitating identification and evaluation of risks, and
- Coaching management in responding to risks.

26. The Council's *Risk Management Strategy* allows for the Audit Partnership to undertake all of those roles, providing safeguards are in place and agreed through the Audit Charter. The safeguards include:

- Internal separation of duties within the Audit Partnership, managed through the Deputy Head of Audit Partnership role. The Deputy Head of Audit Partnership will lead on reviews of the risk management approach which are reported separately to the Audit Committee and sponsored by the Deputy Chief Executive or Section 151 Officer.
- The Audit Partnership's resource input into risk management will be approved each year by the Audit Committee through the Audit Plan and monitored through update reports.
- Overall responsibility for approving the risk management approach remains with the Audit Committee acting on the advice of the Council's Management Team. The Audit Committee also retains its constitutional role of conducting its own assessments on the effectiveness of the Council's risk management approach which may, if required, also include independent review.

~~24-27.~~ Although not a part of the Council's internal controls, the Audit Committee may also draw assurance from any work completed by the Council's external auditors in completing their work supporting the Value for Money conclusion.

Counter Fraud

~~25-28.~~ Internal AuditThe Audit Partnership's role on Counter Fraud will be in accordance with the Council's *Counter Fraud Strategy* and with the resources approved by the Audit Committee in the Annual Audit Plan.

~~26-29.~~ Internal AuditThe Audit Partnership will liaise with the Council's Counter Fraud Service, providing support and co-operation consistent with the *Counter Fraud Strategy* and the approved audit plan.

Major Projects

~~27-30.~~ ~~Internal Audit~~ The Audit Partnership will be informed of major projects and their progress through continuing discussion with Management. Internal Audit response to major projects will be proportionate to the risk in terms of the inclusion of specific audit work within the annual audit plan. Where a project team seeks advice or further support from Internal Audit, we will treat that request as one for consultancy support as described from paragraph 21.

Relationships

~~28-31.~~ The Head of Audit Partnership and the audit team are involved in a wide range of relationships whose quality ~~are~~ is important in supporting the effective delivery of the audit function.

Relationships with management

~~29-32.~~ The ~~internal audit service~~ Audit Partnership will maintain effective relationships with managers at the Council. This will include consultation in the audit planning process both at an overall plan level and with respect to the scope of individual audit projects as well as regular meetings with key stakeholders. Timing of audit work will also be agreed in conjunction with Management.

Relationships with external auditors and regulators

~~30-33.~~ The ~~internal audit service~~ Audit Partnership and Grant Thornton LLP have an established and sound working relationship described in more detail within the *Internal/External Audit Protocol* presented to the Audit Committee in March 2014. ~~We~~ Each will continue to rely upon and draw from each other's work subject to the limits and duties determined by our respective responsibilities and professional standards. This enables ~~us to evaluate~~ evaluation and review of work ~~and only leading to~~ re-performance only where necessary. ~~We~~ The Audit Partnership and Grant Thornton LLP ~~will~~ meet regularly and share ~~our~~ plans and reports.

~~31-34.~~ The ~~internal audit service~~ Audit Partnership will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where appropriate the Head of Audit Partnership or appropriately delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

Relationships with Members

~~32-35.~~ The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Audit Committee. However, we place great store in gaining and maintaining an effective working relationship with Members and so will foster good contacts throughout the ~~internal audit service~~ Audit Partnership as appropriate.

~~33-36.~~ The Head of Audit Partnership will have the opportunity to meet separately (that is, without other officers in attendance) with the Chair of the Audit Committee and other Members if desired.

Standards of internal audit practice

~~34-37.~~ This Charter recognises the mandatory nature of the IIA definition of Internal Auditing ~~and~~, Code of Ethics ~~and the~~, Public Sector Internal Audit Standards ~~and the~~ IPPF. The ~~Internal Audit team~~ Audit Partnership ~~comply~~ complies with these standards.

Quality assurance

~~35-38.~~ The Standards require that audit be subject to a quality assurance and improvement programme. For ~~Mid Kent Audit~~ the Audit Partnership, that programme incorporates both internal and external elements.

Internal assurance

~~36-39.~~ ~~All of our a~~ Audit engagements are subject to review by management ~~and the Head of Audit Partnership~~ prior to finalisation. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the area under review and that conclusions are supported by detailed work undertaken. ~~We will vary~~ The Audit Partnership varies the range and scope of reviewers to help maintain consistency and support learning within the service.

External assurance

~~37-40.~~ An external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The ~~service's~~ Audit Partnership's most recent such assessment was completed by the Institute of Internal Auditors in 2014, with results reported to the Audit Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss options with the Corporate Services Director and the Audit Committee as the need arises.

This Charter is authorised within Ashford Borough Council:

~~Deputy Chief Executive~~ Section 151 Officer: Paul Naylor Ben Lockwood

Audit Committee Chair man: Councillor ~~Paul Clokie~~ John Link

With the agreement of:

Head of Audit Partnership: Rich Clarke

Mid Kent Services Director: Paul Taylor

Agreed by Audit Committee: ~~03-15~~ March 2015 2016

Next Review required: **Annually**

MID KENT AUDIT

Internal Audit Charter

Ashford Borough Council



Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Ashford Borough Council (the 'Council'). The Charter establishes the Audit Partnership's position within the authority, including the nature of the Head of Audit Partnership's functional reporting relationships. The Charter also authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of internal audit activities.
2. Final approval of the Charter resides with the Audit Committee, but it will be reviewed each year by the Head of Audit Partnership in consultation with the Audit Partnership Board.

Mission

3. The Audit Partnership acknowledges and aspires to achieving the mission of Internal Auditing provided by the Institute of Internal Auditors (IIA):

To enhance and protect organisational value by providing stakeholders with risk based and objective assurance, advice and insight.

Scope of work

4. The scope of the Audit Partnership's work includes, in the first instance, tasks in support of the annual Head of Internal Audit Opinion. This work covers three areas:

Internal Control

5. 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.

Corporate Governance

6. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

Risk Management

7. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
8. In addition to those three core areas the Audit Partnership may, subject to specific arrangements, undertake engagements in the areas of counter fraud, operational risk management or advisory as discussed elsewhere in this Charter.

Authority of internal audit

9. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations 2015 (the 'Regulations') which require the Council to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards.
10. Deriving authority from those Regulations and those authorising this Charter, the Audit Partnership has free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its scope.
11. To enable full discharge of its duties, the Head of Audit Partnership and his team are authorised to:
 - Have a right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all functions, records, property and personnel;
 - Obtain assistance where necessary from Council officers and contractors involved in subject of audit engagements.
12. The Head of Audit Partnership and his team are not authorised to perform any operational duties for the Council, initiate or approve accounting transactions (except where directly related to the administration of the service) and direct the activities of any Council employee (except insofar as they have been appropriately assigned to assist engagements or as described within the safeguards set out in this Charter).

Responsibility

13. The Head of Audit Partnership and his team have responsibility to undertake their work at all times in accordance with the Public Sector Internal Audit Standards (the 'Standards'), the IIA's Code of Ethics (the 'Code') and the broader International Professional Practices Framework (IPPF) which applies across the global practice of internal audit. In addition, those members of the team who have membership of professional bodies will comply with the relevant requirements of that organisation. Undertaking work in accordance with the Standards will include:
 - Developing a flexible risk-based audit strategy and annual plan in consultation with senior management and presented annually to the Audit Committee for review and approval. The Audit Committee will also be invited to review and approve significant changes to the plan;
 - Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including escalation of items of significant risk;
 - Issuing period reports to senior management and the Audit Committee summarising results of internal audit work;
 - Continuing liaison with the Council's external auditors and other assurance providers to seek optimal assurance coverage;

- Communicating regularly with relevant stakeholders on progress of the Audit Partnership, its work and findings; and
- Keeping the Shared Services Board (and so, the Section 151 Officer) informed on the performance of the internal audit service.

Reporting lines

14. The Head of Audit Partnership has responsibility for day to day management of the Audit Partnership. The Head of Audit Partnership reports administratively to the Director of Mid Kent Services and, with respect to activities undertaken at the Council, reports functionally to the Section 151 Officer as the Council's representative on the Audit Partnership Board. Organisationally, the Head of Audit Partnership reports to the Audit Committee. The Head of Audit Partnership also has a direct right of access to the Interim Chief Executive as and when required.
15. Should the Head of Audit Partnership not be satisfied with the response of senior management to or engagement with a given audit review this will be highlighted to the relevant Head of Service in the first instance and escalated to the Audit Committee if the matter remains unresolved.

Independence and objectivity

16. The Audit Partnership is and will remain free from interference in determining the scope and nature of its work and communicating its results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least annually, in summary reports to the Audit Committee. The summary reports will consider and report separately to the Committee on each area of the Audit Partnership's functions.

Accountability

17. The Head of Audit Partnership, in the discharge of his duties, will be accountable to the Audit Committee and the Section 151 Officer (through the Audit Partnership Board). This will include the provision of an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

18. To be effective, the Audit Partnership requires full co-operation of senior management. In approval of this Charter the Audit Committee and the Section 151 Officer Executive direct management to co-operate with the Audit Partnership in the delivery of the service. This includes, but is not limited to, agreeing suitable briefs for audit engagements, acting as audit sponsors, providing access to appropriate records, personnel and systems, responding to draft reports and implementing management actions in line with agreed timescales.

19. Senior management also undertakes to keep the Audit Partnership abreast of significant proposed changes in processes, systems or organisation, newly identified significant risks and all suspected or detected fraud, corruption or impropriety.
20. Senior management will also ensure that the Audit Partnership has access to sufficient resources to fulfil the audit plan as directed by the Audit Committee. Responsibility for arranging and deploying resources in fulfilment of the plan rests with the Head of Audit Partnership.

Other Work

Consultancy

21. The Standards allow that Internal Audit resource may sometimes be more usefully focussed towards providing advice rather than assurance. Where appropriate, the service may act in a consultancy capacity by giving guidance, providing that:
 - The objectives of the engagement address governance, risk management or internal control,
 - The request has been approved by the a member of the Operational Management Team,
 - The service has the right skills, experience and available resource, and
 - The Audit Partnership's involvement will not constitute a conflict of interest, compromise the appearance or fact of its independence and will not involve assuming a management role in providing advice.
22. The Head of Audit Partnership is responsible for ensuring all requests are reviewed in accordance with the above criteria and for making the final decision. The specific role of the Audit Partnership in any particular engagement will be agreed with the sponsor, documented within the assignment plan and reported to the Audit Committee at the next opportunity.
23. With respect to significant requests, defined as those which require the purchase of additional resources or major amendment to the agreed audit plan, the Head of Audit Partnership will consult the Chair of the Audit Committee before accepting the engagement.

Risk Management

24. The Audit Partnership's role is Risk Management will be guided by the Institute of Internal Auditors position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management*. The Audit Partnership will not undertake roles defined as inappropriate by that guidance.
25. The position paper lists the following as legitimate internal audit roles with safeguards:
 - Co-ordinating risk management activities,

- Consolidated risk reporting,
 - Developing a risk approach for approval and its subsequent maintenance,
 - Facilitating identification and evaluation of risks, and
 - Coaching management in responding to risks.
26. The Council's *Risk Management Strategy* allows for the Audit Partnership to undertake all of those roles, providing safeguards are in place and agreed through the Audit Charter. The safeguards include:
- Internal separation of duties within the Audit Partnership, managed through the Deputy Head of Audit Partnership role. The Deputy Head of Audit Partnership will lead on reviews of the risk management approach which are reported separately to the Audit Committee and sponsored by the Deputy Chief Executive or Section 151 Officer.
 - The Audit Partnership's resource input into risk management will be approved each year by the Audit Committee through the Audit Plan and monitored through update reports.
 - Overall responsibility for approving the risk management approach remains with the Audit Committee acting on the advice of the Council's Management Team. The Audit Committee also retains its constitutional role of conducting its own assessments on the effectiveness of the Council's risk management approach which may, if required, also include independent review.
27. Although not a part of the Council's internal controls, the Audit Committee may also draw assurance from any work completed by the Council's external auditors in completing their work supporting the Value for Money conclusion.

Counter Fraud

28. The Audit Partnership's role on Counter Fraud will be in accordance with the Council's *Counter Fraud Strategy* and with the resources approved by the Audit Committee in the Annual Audit Plan.
29. The Audit Partnership will liaise with the Council's Counter Fraud Service, providing support and co-operation consistent with the *Counter Fraud Strategy* and the approved audit plan.

Major Projects

30. The Audit Partnership will be informed of major projects and their progress through continuing discussion with Management. Internal Audit response to major projects will be proportionate to the risk in terms of the inclusion of specific audit work within the annual audit plan. Where a project team seeks advice or further support from Internal Audit, we will treat that request as one for consultancy support as described from paragraph 21.

Relationships

31. The Head of Audit Partnership and the audit team are involved in a wide range of relationships whose quality is important in supporting the effective delivery of the audit function.

Relationships with management

32. The Audit Partnership will maintain effective relationships with managers at the Council. This will include consultation in the audit planning process both at an overall plan level and with respect to the scope of individual audit projects as well as regular meetings with key stakeholders. Timing of audit work will also be agreed in conjunction with Management.

Relationships with external auditors and regulators

33. The Audit Partnership and Grant Thornton LLP have an established and sound working relationship described in more detail within the *Internal/External Audit Protocol* presented to the Audit Committee in March 2014. Each will continue to rely upon and draw from each other's work subject to the limits and duties determined by our respective responsibilities and professional standards. This enables evaluation and review of work leading to re-performance only where necessary. The Audit Partnership and Grant Thornton LLP meet regularly and share plans and reports.
34. The Audit Partnership will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where appropriate the Head of Audit Partnership or appropriately delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

Relationships with Members

35. The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Audit Committee. However, we place great store in gaining and maintaining an effective working relationship with Members and so will foster good contacts throughout the Audit Partnership as appropriate.
36. The Head of Audit Partnership will have the opportunity to meet separately (that is, without other officers in attendance) with the Chair of the Audit Committee and other Members if desired.

Standards of internal audit practice

37. This Charter recognises the mandatory nature of the IIA definition of Internal Auditing, Code of Ethics, Public Sector Internal Audit Standards and the IPPF. The Audit Partnership complies with these standards.

Quality assurance

38. The Standards require that audit be subject to a quality assurance and improvement programme. For the Audit Partnership, that programme incorporates both internal and external elements.

Internal assurance

39. Audit engagements are subject to review by management prior to finalisation. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the area under review and that conclusions are supported by detailed work undertaken. The Audit Partnership varies the range and scope of reviewers to help maintain consistency and support learning within the service.

External assurance

40. An external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The Audit Partnership's most recent such assessment was completed by the Institute of Internal Auditors in 2014, with results reported to the Audit Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss options with the Corporate Services Director and the Audit Committee as the need arises.

This Charter is authorised within Ashford Borough Council:

Section 151 Officer: Ben Lockwood

Audit Committee Chairman: Councillor John Link

With the agreement of:

Head of Audit Partnership: Rich Clarke

Mid Kent Services Director: Paul Taylor

Agreed by Audit Committee: 15 March 2016

Next Review required: Annually

Agenda Item No: 7
Report To: AUDIT COMMITTEE
Date: 15 MARCH 2016
Report Title: INTERNAL AUDIT PLAN 2016/17
Report Author: Rich Clarke



| | |
|-----------------|--|
| Summary: | The report sets out the detail of the proposed plan for Mid Kent Audit's work at Ashford BC during 2016/17, along with an outline plan for further years up to 2018/19. The plan is a development of the four year plan approved by this Committee in March 2015, updated for continuing risk assessment, discussions with officers and feedback from Members. |
|-----------------|--|

Key Decision: No

Affected Wards: All

Recommendations:

- 1. The Committee APPROVES the Internal Audit Plan 2016/17**
- 2. The Committee NOTES the longer term plan to 2018/19The Committee NOTES the Head of Audit Partnership's view that the service is sufficiently resourced to deliver a Head of Audit Opinion..**

Policy Overview: Not Applicable

Financial Implications: Not Applicable

Risk Assessment No

EIA No

Other Implications: Not Applicable

Exemptions :

Background Papers: Internal Audit Plan 2016/17

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

Report Title: Internal Audit Plan 2016/17

Purpose of the Report

1. The report is provided in order to allow the Committee to consider and approve the Internal Audit Operational Plan 2016/17. It sets out the proposed audit work, comprising both assurance rated projects and other work, that the Audit Partnership intends to undertake to support work assessing the Council's internal control, risk management and corporate governance

Background

2. The Audit Committee must obtain assurance on the control environment of the organisation. Consequently, the Committee needs to have an awareness of the work conducted by Internal Audit, in order to adequately fulfil its duties.
3. The internal control environment comprises the whole network of systems and controls established to manage the Council, to ensure that its objectives are met. It includes financial and other controls, and arrangements for ensuring the Council is achieving value for money from its activities.

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. The Audit Committee as part of its terms of reference must maintain oversight of the internal audit function and its activities. The plan proposed aims to complete internal audit's responsibilities in an efficient and effective manner..

Consultation

7. All findings and recommendations identified within reviews are consulted on with the appropriate Head of Service and action plans are agreed with management to implement recommendations. This plan was developed in consultation with Heads of Service and other Managers across the last several months and in response to discussions over the course of the year. The plan was also shared in full with officers at the Audit Partnership's Shared Service Board meeting.

Implications Assessment

8. Not Applicable

Handling

9. Not Applicable

Conclusion

10. The report sets out the one-year operational plan for 2016/17 together with an update to the longer-term plan up to 2018/19 originally presented to this Committee in March 2015. We ask the Committee to review and approve the 2016/17 operational plan in note the longer-term plan. We also ask Members to note the Head of Audit Partnership's view that the Partnership has sufficient resources to deliver the plan. This final request arises from developments to Public Sector Internal Audit Standards during 2015/16 that require the Head of Audit to explicitly draw attention of Members to his assessment of the resources as his disposal.

Portfolio Holder's Views

11. The portfolio holder with responsibility for audit is a member of this Committee.

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**Internal Audit Plan
2016/17 Operational Plan
and Strategic Plan Update**

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 processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, specifically Regulation 5:

A relevant authority must undertake an effective internal audit to evaluate effectiveness of its risk management, control and governance processes, taking into account Public Sector Internal Audit Standards (PSIAS).

3. The Head of Audit Partnership is required by PSIAS standard 2450 to provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The opinion takes into consideration:
 - a) Internal Controls: Including financial and non-financial controls.
 - b) Corporate governance: Including effectiveness of measures to counter fraud and corruption, and
 - c) Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. This document builds on our 4 year strategic plan presented to this Committee in March 2015, outlining the updates and adaptations we propose to ensure that the 2016/17 operational plan will support an accurate and reliable Head of Audit opinion and help the Council achieve its objectives. While the focus is on 2016/17, we have also made some consequential adaptations to the final two years of the plan which we will revisit in full and extend into 2020/21 as part of next year's planning.

¹ This is the definition of internal audit included within the Public Sector Internal Audit Standards

Basis of our plan: available resources

5. Last year we adapted the basis of our plan to move from seeking to deliver a set number of projects to a number of audit days. This move has enabled a much greater responsiveness and flexibility in how we deliver the audit resource. At Ashford in 2015/16 this helped enable us to support the Council in developing its risk management approach.
6. As noted in our mid year update in December 2015, during 2015/16 the Audit Partnership was restructured following the departure of a long-standing Audit Manager. The restructure has meant the team for 2016/17 can deliver more productive days. We achieve this through the addition of an audit team administrator role to free-up time for completing the plan, revision to the audit manager job description to enable more direct project and consulting work and continued development of the two trainee posts we created in 2015.
7. These changes have meant an increase across the Partnership in available productive days from 1,600 to 1,710, an increase of just under 7%. Given that the restructure occurred within the existing audit budget, this increase in productive days is at no additional cost.
8. In accordance with the principles of the Collaboration Agreement which governs the operation of the service, we divide these days between the authorities in line with their contribution to the service's budget, as per the table below:

| Authority | Contribution to overall partnership budget | Audit Days Allocated 2016/17 | Increase from days allocated 2015/16 |
|--------------------|--|------------------------------|--------------------------------------|
| Ashford BC | 23% | 395 | +25 |
| Maidstone BC | 29% | 500 | +30 |
| Swale BC | 26% | 440 | +30 |
| Tunbridge Wells BC | 22% | 375 | +25 |
| Total | 100% | 1,710 | +110 |

9. Therefore the total audit allocation for Ashford BC in 2016/17 is **395 days**, an increase of 25 days from the 2015/16 level. Operational guidance on PSIAS 2030 (Resource Management) sets out a range of factors Heads of Audit must consider when evaluating whether the level of resource available is sufficient to fulfil responsibilities. We present that analysis on the following page and its conclusion that we are satisfied that the Audit Partnership has sufficient resources in both quantity and capability based on that risk assessment.
10. However, we must clarify that our audit plan cannot address all risks across the Council and represents our best deployment of what are inevitably limited audit resources. In approving the plan, the Audit Committee recognises this limitation. We will keep the Committee abreast of any changes in our assessment of resource requirement as we monitor the risks posed to the Council. In particular, we will revise this resource assessment afresh each year.

Audit Resource Evaluation 2016/17

| Step | Question to consider | Response | Resource Indication |
|-------------------------------------|--|---|---|
| 1 | Did you have sufficient resource to complete your prior year plan? | Marginal under-delivery of the plan anticipated (97% completion forecast) due principally to in-year maternity vacancies and lost time from inducting new staff. Similar issues not anticipated for 2016/17 and so no immediate barrier known to completing the plan. | No change in audit resource for this year |
| Changes To The Organisation | | | |
| 2 | How has the size of the organisation changed? | No significant change. | No change in audit resource for this year |
| 3 | How has the complexity of the organisation changed? | Subsidiary companies increasing in activity, as well as changes and reorganisation at senior management level. | More audit resource needed this year |
| 4 | How has the risk appetite of the organisation changed? | While not formally documented, our risk workshops over the course of the year indicate the authority is increasingly willing to take on (or support) more ambitious projects to realise its Corporate Plan goals. | More audit resource needed this year |
| 5 | How has the risk profile of the organisation changed? | This greater ambition, coupled with the greater risks inherent in a challenging public sector environment with limited resources and expanding and diversifying responsibilities, suggests a greater risk profile. | More audit resource needed this year |
| 6 | How has the organisation's control environment changed? | Changes to income system in particular part of a general move to greater automation in controls. Consistently, audit reports on key controls record sound/strong assurance results. | Less audit resource needed this year |
| Changes To The Audit Service | | | |
| 7 | What was the outcome of the QAIP/EQA? | Full conformance. | No change in audit resource for this year |
| 8 | What changes have there been to audit professional standards & guidance? | Changes to standards on 2nd line of defence capabilities in particular point to a broader audit role if useful to authorities. May in future lead to additional or modified resource demand but no change at present. | No change in audit resource for this year |
| 9 | What efficiencies have there been within the audit service? | Continued bedding in of new audit approach and templates. Largely clearly backlog of 2013/14 and earlier recommendations for follow up. | Less audit resource needed this year |

Audit Resource Evaluation 2016/17

| Step | Question to consider | Response | Resource Indication |
|------------------------|--|---|--------------------------------------|
| 10 | How have Board expectations of the audit service and its role changed? | Reduction in counter fraud role as responsibilities pass to Counter Fraud Team, but consultation with service managers shows range of projects/innovative areas where audit assurance input is valuable, especially in early stages of developing projects. | More audit resource needed this year |
| Overall Summary | | | |
| | What level of audit resource is needed compared to last year? | On balance, there is a greater need for audit resource in 2016/17 than 2015/16. Principally this is due to increase in the general risk environment, the Council's ambitions, and the level of personnel and service change it has undergone and will continue to undergo. Weighing against are continued efficiencies within the audit service, a reduced role in counter fraud and a consistently reliable control environment. | More audit resource needed this year |
| | Do you have sufficient resource to complete your audit plan? | I am confident that this plan delivers sufficient resources to support a reliable and comprehensive Head of Audit opinion at year end. | Yes |

Resource evaluation in accordance with Standard 2030 on Resource Management

Basis of our plan: risk assessment

11. In compiling the four year strategic plan in 2015 we undertook a comprehensive evaluation of all areas of potential assurance need (the 'audit universe') and the risks and strategic priorities of the Council. It is not efficient to run that evaluation in full every year and so the 2016/17 planning has concentrated on adapting and evolving our understanding. We will undertake a more comprehensive review ahead of the 2017/18 audit plan, including a new four-year plan which will extend out to 2020/21.
12. What we have done for 2016/17 is an analysis of the projects and other audit work originally scheduled in the four-year plan we presented in March 2015 and considered their continuing relevance and utility to the Council based on our understanding of how its risks and priorities have developed. To form this analysis we have:
 - Considered the results of audit work conducted in 2015/16 (including non-project work ,follow-up of recommendations and work completed at other authorities),
 - Consulted widely with officers, including meeting individually with each Head of Service and presenting an earlier draft of this plan to the Council's s.151 Officer and management and
 - Reviewed the Council's strategic plan and risk documentation, including direct participation across the year at officer led risk workshops.
13. These steps stand in addition to our day-to-day work across the year in keeping plans flexible and responsive to new information and feedback from officers, Members and the broader environment the Council operates in.
14. The work identified for 2016/17 is set out on the following page, along with further notes of the ground we expect the review to cover (although specific audit scopes with be agreed with audit sponsors during engagement planning) and comments on any changes from the 2016/17 plan outlined in our 4 year strategic plan of Mach 2015.

2016/17 Operational Audit Plan

| Project titles and descriptions | Plan Days | 2016/17 Updates |
|--|----------------|---|
| Core Finance Reviews | | |
| General Ledger Journals - To document process for managing GL journals and test key controls. | 10 | Retained per original plan but re-scoped from 15 day project to focus on journals |
| Payments - To document payment processes and test key controls.. | 15 | Retained per original plan |
| Budgetary Control - To review and test processes in place for monitoring 2016/17 budgets and approving virements. | 15 | Retained per original plan |
| Bank Reconciliations - To review adequacy of the bank reconciliation process, in particular from new income management software. | 10 | Retained per original plan but link made to new income system |
| Payroll - To review any changes to the system and test key controls. Consider in particular self-service functionality. | 10 | Retained per original plan but shift focus slightly to include self service |
| Business Rates - To review any changes to the system and focus testing on recovery and write-offs | 10 | Retained per original plan |
| Council Tax - To review any changes to the system and focus testing on billing controls | 10 | Retained per original plan, slight reduction in days as narrowed focus |
| Corporate Governance Reviews | | |
| Members' Allowances - To review compliance with the Members' Allowances scheme | 15 | Retained per original plan |
| ICT Network Controls - To review external assurances sought and gained by ICT and assess action on recommendations. | 15 | Re-scoped from original plan to maximise lessons from work elsewhere in Partnership. |
| Corporate Governance - To build on initial review in 2015/16 and consider the Council's arrangements for meeting the revised Corporate Governance Code applicable from 1 April 2016. | 10 | Retained per original plan |
| Counter Fraud Risk Assessment - To consider operation of the Counter Fraud Team against the CIPFA Counter Fraud Centre's risk assessment tool. | 10 | Addition to 16/17 plan consistent with revised roles of audit/CFT on counter fraud |
| Arms Length Companies - To review how the Council manages its interests in its wholly owned subsidiary companies. | 15 | Addition to 16/17 plan based on discussion with officers. |
| Operational Reviews | | |
| Business Continuity Planning - To review adequacy of arrangements in line with statutory and other obligations | 5 ¹ | Retained from original plan |
| Housing Services Team - To review setup and operation of the housing services team | 10 | Original 16/17 project split into two, first part focussing on the team and its operation |

| Project titles and descriptions | Plan Days | 2016/17 Updates |
|--|------------------|---|
| Housing Maintenance - <i>To review controls on scheduling and management of planned maintenance.</i> | 10 | Second part of project expanded and split from original plan |
| Customer Services - <i>To review work of the customer services team, particularly in the light of changes to location.</i> | 15 | Retained from original plan |
| Corporate Communications - <i>To review work of the communications team, particularly focussing on the use of social media.</i> | 15 | Retained from original plan |
| Arts & Cultural Industries - <i>To review delivery of the arts and culture strategy</i> | 15 | Retained from original plan |
| HR Policy Compliance - <i>To review effectiveness of measures to monitor and enforce compliance with HR policies (e.g. sickness absence)</i> | 15 | Retained from original plan |
| Equalities - <i>To review controls and processes for meeting legislative equalities obligations.</i> | 15 | Retained from original plan |
| Development Management - <i>To review processes and controls in place for planning enforcement.</i> | 15 | Retained from original plan |
| Appraisal System - <i>To review effectiveness of the revised staff appraisal system.</i> | 15 | Added to 16/17 plan based on discussion with officers and at Audit Committee. |
| Property Management - <i>To review operation of the service include income controls</i> | 12 | Added to 16/17 plan following deferral from 15/16 plan. |
| Elections & Registration - <i>To review implementation of individual elector registration and project management of elections.</i> | 15 | Added to 16/17 plan following deferral from 15/16 plan. |
| IT Development - <i>To review planning and prioritisation of development projects and change management within systems.</i> | 15 | Brought forward from 2018/19 following discussion with officers |
| Non-Project Work | | |
| Audit Committee Support - <i>Attendance at, preparation and advice to Audit Committee and Members, including training and briefings</i> | 6 | Retained from original plan |
| Recommendation Follow-Up - <i>Consider implementation of audit recommendations as part of quarterly exercise.</i> | 30 | Reduced from 40 days originally, following working through of backlog |
| Risk Management Support - <i>To assist the Council in identifying and managing strategic and operational risks.</i> | 20 | Retained from original plan |
| Contingency - <i>To provide space for responses to risks arising in year, including requests for ad hoc advice or support</i> | 22 | Retained from original plan, increased aimed at delivering 5% contingency |
| Projects removed from 2016/17 Plans | | |
| Corporate Projects Review | 0 | Moved from annual to biannual review after positive 15/16 findings across MKIP, will next run in 17/18. |

| Project titles and descriptions | Plan Days | 2016/17 Updates |
|--|------------------|--|
| Homelessness | 0 | Work was brought forward into 15/16 at officer request |
| Performance Management | 0 | Moved to 17/18 to reflect new PM approach still in development during 16/17. |
| Insurance Provision | 0 | Moved to 17/18 to coincide with similar work elsewhere in the Partnership. |
| Counter Fraud Support | 0 | Removed from plan to reflect change in demand following established counter fraud team |
| Conservation Management | 0 | Removed from plan as area de-prioritised by authority. |
| Total Audit Days | 395 | |

15. At Appendix A, we show this plan in place against the remainder of our strategic plan up to 2018/19. This includes a small number of consequential amendments to 2017/18 and 2018/19, particularly when work has been re-scheduled. We will re-consider those changes and set out further detail as part of our planning for 2017/18 and subsequent years.

Delivering audit work

16. The risk-based approach taken to forming the plan is integrated within our approach to individual projects. In addition to any specific objectives agreed with the audit sponsor at the time of drawing up the audit scope each project considers the strategies, risks and objectives relevant to the service area under review.
17. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards. The roles and responsibilities for successful delivery of audit projects are set out also in our Audit Charter. An updated Charter for 2016/17 is also included on today's agenda and will be provided to every audit sponsor.
18. Each of these audit reviews will culminate in an assurance rated report, giving our view on whether the particular area is operating effectively. We will keep these rating levels consistent with our revised approach adopted first in 2014/15, with details of the assurance levels included as a reminder to Members in this report at appendix C.
19. We will also, where appropriate, make recommendations for improvement. These recommendations are graded as set out in appendix C and followed up by our audit team when due for implementation. Recommendations that we find have not been implemented where there is ongoing risk to the Council are reported in the first instance to the Council's Management Team. Also, Senior Managers responsible for services that consistently fail to address audit recommendations may be invited to provide further explanation to Members at the Audit Committee.
20. The plan also recognises the non-project work we deliver, using our experience and expertise to assist the Council in pursuit of its strategic priorities. We undertake this work in line with the arrangements set out in the Charter, in particular with those safeguards aimed at preserving our independence and objectivity.
21. Typically the non-project work will not result in an assurance graded output, but rather an alternative format relevant to the engagement and agreed with the work's sponsor. In any event, we will inform the Audit Committee of the outcomes of non-audit work through our interim and year end reports.

Monitoring delivery

22. We undertake our audit work against our standard audit approach, which has been assessed in our EQA as consistent with the PSIAS. In addition we adhere to the professional standards, roles and responsibilities as set out in the Charter.
23. As part of this approach we are careful to ensure the quality and consistency of our work. With respect to individual audit projects, each undergoes internal review focussing on each stage from compilation of the original brief, through completion of fieldwork and ultimately our reporting.
24. We undertake broader quality assurance of our work as detailed in our annual reports which include a full self assessment against the PSIAS.
25. Our service is also monitored each quarter by an Audit Shared Service Board; Ben Lockwood is Ashford's representative. The Board receives performance and financial monitoring reports on the progress of the service. The set of performance indicators against which we report are included at appendix D, and we also report outturn on these indicators to the Audit Committee twice a year.
26. We are also dedicated to continuing to develop and enhance the professional expertise and experience of our audit team. In 2016/17 we have three of the team studying for professional qualifications in addition to the five who gained qualifications in 2015/16. We include more details about the audit team and the work we will be undertaking in 2016/17 to support and enhance their development within appendix B.

Appendix A: Ashford Borough Council: Updated Strategic Plan

Core Finance & Corporate Governance Reviews

| Service | Audit Project | Pre 2016/17 | 2016/17 | 2017/18 | 2018/19 |
|-------------------------------|-------------------------------|---------------------|------------------------------|------------------------------|------------------------------|
| Core Financial Systems | | | 80 days 7 reviews | 77 days 6 reviews | 80 days 7 reviews |
| Finance | General Ledger | 13/14, 15/16 | 10 | 10 | 10 |
| Finance | Payments & Receipts | 12/13, 14/15, 15/16 | 15 | 15 | 15 |
| Finance | Procurement | 12/13, 15/16 | | | 10 |
| Finance | Budget Management | | 15 | | 10 |
| Finance | Bank/Treasury | 13/14 | 10 | | 15 |
| Finance | Rent Accounting | 14/15 | | 15 | |
| Finance | Business Rates | 12/13, 14/15 | 10 | | 10 |
| Finance | Council Tax | 12/13, 14/15 | 10 | 10 | |
| Finance | Housing Benefits | 13/14, 14/15 | | 15 | |
| Organisational Development | Payroll | 12/13, 13/14, 15/16 | 10 | 12 | 10 |
| Corporate Governance | | | 70 days 6 reviews | 60 days 5 reviews | 55 days 5 reviews |
| Finance | Counter Fraud Risk Assessment | | 10 | | |
| Health, Parking & Com Safety | Safeguarding | 15/16 | | | 10 |
| Legal & Democratic Services | Freedom of Information | 15/16 | | | 10 |
| Legal & Democratic Services | Data Protection | 15/16 | | | 15 |
| Legal & Democratic Services | Arms Length Companies | | 15 | | |
| Legal & Democratic Services | Members' Allowances | | 15 | | |
| Legal & Democratic Services | Register of Interests | 14/15 | | | 15 |
| Organisational Development | Business Continuity (ABC/SBC) | 13/14, 14/15 | 5 | 15 | |
| Organisational Development | ICT Controls and Access | | 15 | | |
| Policy & Performance | Corporate Governance | 15/16 | 10 | 5 | 5 |
| Policy & Performance | Performance Management | | | 15 | |
| Policy & Performance | Risk Management | | | 15 | |
| Property & Projects | Corporate Projects Review | 15/16 | | 10 | |

Operational Reviews

| Service | Audit Project | Pre-2016/17 | 2016/17 | 2017/18 | 2018/19 |
|----------------------------|-----------------------------------|---------------------|------------------------|------------------------|------------------------|
| Operational Reviews | | | 167 days 12 reviews | 185 days 14 reviews | 165 days 12 reviews |
| Cultural Services | Art & Cultural Industries | | 15 | | |
| Cultural Services | Leisure Partnerships | 12/13 | | 15 | |
| Cultural Services | Tourism | 15/16 | | | |
| Development Delivery | Development Management | | 15 | | |
| Development Delivery | Developer Contributions | 12/13 | | | 20 |
| Development Delivery | Building Control | 13/14 | | | 10 |
| Environment & Customer | Customer Services | | 15 | | |
| Environment & Customer | Environmental Health | | | 15 | |
| Environment & Customer | Grounds Maintenance | | | 15 | |
| Environment & Customer | Waste Collection (ABC/MBC/SBC) | 13/14 | | 10 | |
| Environment & Customer | Street Cleansing | 15/16 | | | |
| Environment & Customer | Animal Control | 12/13 | | | 10 |
| Environment & Customer | Pest Control | 13/14 | | | 10 |
| Environment & Customer | Waste Management | | | | 15 |
| Environmental & Customer | Cemeteries | 14/15 | | 10 | |
| Finance | Insurance Provision | | | 15 | |
| Finance | VAT Management | 13/14 | | 10 | |
| Health, Parking & Safety | CCTV & Community Safety | 12/13 | | 15 | |
| Health, Parking & Safety | Parking | 12/13, 13/14, 15/16 | | | 15 |
| Health, Parking & Safety | Licensing | 14/15 | | | 15 |
| Housing | Housing Maintenance | 13/14, 14/15 | 10 | 10 | |
| Housing | Housing Services Team | | 10 | | |
| Housing | Homelessness | 12/13, 13/14, 15/16 | | | 15 |
| Legal & Democratic | Elections & Registration | | 15 | | 10 |
| Legal & Democratic | Democratic Services | 12/13, 15/16 | | | |
| Legal & Democratic | Legal Services | | | | 15 |

| Service | Audit Project | Pre-2016/17 | 2016/17 | 2017/18 | 2018/19 |
|----------------------------|--------------------------|--------------|--------------------------------|--------------------------------|--------------------------------|
| Operational Reviews | | | 167 days 12 reviews | 185 days 14 reviews | 165 days 12 reviews |
| Organisational Development | Corporate Communications | | 15 | | |
| Organisational Development | IT Development | 12/13 | 15 | | |
| Organisational Development | Policy Compliance | 13/14 | 15 | | |
| Organisational Development | Appraisal System | | 15 | | |
| Organisational Development | Change Management | | | 15 | |
| Organisational Development | Health & Safety | 13/14 | | 15 | |
| Organisational Development | GIS | 14/15 | | 10 | |
| Organisational Development | Technical Support | 15/16 | | | |
| Organisational Development | Training & Development | 15/16 | | | |
| Organisational Development | Recruitment | | | | 15 |
| Planning Policy | Economic Development | 14/15 | | 15 | |
| Policy & Performance | Equalities | | 15 | | |
| Property & Projects | Project Office | 14/15 | | 15 | |
| Property & Projects | Property Management | 14/15, 15/16 | | | 15 |
| Strategic Sites | Property Management | | 12 | | |

Prior year work column looks back over the past four years, so does not note audit coverage before 2011/12.

Audit projects noting more than one client (e.g. ABC/SBC) are reviews of services delivered in partnership. In such instances our work is co-funded between the partners' audit plans and the audit output will be made available to all on the same basis.

Precise timings of work within a given year will be subject to negotiation with individual audit sponsors.

Non-Project Work

| Service | Audit Project | Pre-2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-----------------------------------|------------------------------|-------------|----------------|----------------|----------------|
| Risk Management | | | 20 days | 20 days | 20 days |
| Policy & Performance | Risk Management Support | n/a | 20 | 20 | 20 |
| Audit Follow Ups | | | 30 days | 30 days | 30 days |
| Various | Quarterly follow up exercise | | 30 | 30 | 30 |
| Consultancy and other work | | | 28 days | 23 days | 95 days |
| Legal & Democratic | Supporting Audit Committee | | 6 | 6 | 6 |
| Various | Contingency/consultancy | | 22 | 17 | 39 |

Overall Summary

| Work Type | 2016/17 | 2017/18 | 2018/19 |
|---|--------------------------------|--------------------------------|--------------------------------|
| Audit Work (leading to assurance rating) | 317 days 25 reviews | 322 days 26 reviews | 300 days 23 reviews |
| Core Financial Systems | 80 | 77 | 80 |
| Corporate Governance | 70 | 60 | 55 |
| Service Reviews | 167 | 185 | 165 |
| Non Audit Work (unrated reporting) | 78 days | 73 days | 95 days |
| Risk Management | 20 | 20 | 20 |
| Audit Follow Up | 30 | 30 | 30 |
| Consultancy/Contingency | 28 | 23 | 45 |
| Total Audit Resources Available | 395 days | 395 days | 395 days |

Appendix B: Mid Kent Audit Team

Management

Rich Clarke CPFA ACFS (Head of Audit Partnership): Rich became head of the audit partnership on 1 April 2014 joining the partnership from KPMG, where he had a range of internal and external audit clients across the public sector including LB Islington, Woking BC, East Kent Hospitals University NHS Trust, the Foreign and Commonwealth Office and the Civil Aviation Authority. Rich is a Chartered Accountant (CPFA) and during 2015 undertook and passed further study to become an Accredited Counter Fraud Specialist (ACFS).

Russell Heppleston CMIIA (Deputy Head of Audit Partnership): Russell started working for the Maidstone / Ashford partnership in November 2005, and continued his role as Auditor for the Mid Kent Audit Service when it was established in 2010. He progressed through professional qualifications with the Institute of Internal Auditors (IIA) to achieve both Practitioner and Chartered member status. Having been appointed as Audit Manager for Swale and Maidstone in 2013, Russell was subsequently appointed as Deputy Head of Audit Partnership in the 2015 restructure. During 2016/17 Russell will be studying to achieve accreditation with the Institute of Risk Management.

Frankie Smith CMIIA (Audit Manager – Swale & Tunbridge Wells): Frankie Smith started her career in Internal Audit at Kent County Council in 2001 as a Trainee Auditor. In December 2001 she was appointed to the role of Auditor at Maidstone Borough Council. Over the last 15 years she has completed audits at Ashford, Maidstone, Swale and Tunbridge Wells and became fully CMIIA qualified in August 2015. Frankie was appointed to the role of Audit Manager for Swale and Tunbridge Wells in August 2015.

Alison Blake ACCA, CIRM (Audit Manager – Ashford & Maidstone): Alison joined the internal audit partnership in 2012. Prior to this Alison worked for South Coast Audit for 7 years where she undertook internal audit work across a range of NHS clients in East Kent. During Alison's career she has completed a wide range of audit work including finance, information governance and risk management, system reviews and reviews of compliance with legislation with the aim of working with the client to help them achieve their objectives and the objectives of the organisation as a whole. Following Alison's recent return from maternity leave she takes on the role of Audit Manager for Ashford and Maidstone.

Auditors & Senior Auditors

Mark Goodwin (Senior Auditor): Mark joined Ashford Borough Council in January 1999 having previously worked at Maidstone Borough Council in an audit role. He was a founder member of the Ashford and Maidstone Internal Audit Partnership before this developed into the four-way Mid Kent Audit Partnership in April 2010. He is an experienced auditor who has audited extensively the full spectrum of Council services and activities across a number of local authorities.

Claire Walker (Senior Auditor): Claire joined the audit partnership in September 2010, and has wide experience in a variety of sectors and bodies; Local and Central Government, Arts, Broadcasting, Financial Services, NGOs & Not For Profit Sector (domestic & foreign), also Lottery Fund distribution QUANGOS (New Opportunities Fund, Big Lottery Fund, Millennium, Commission, Olympic Delivery Agency, Heritage Lottery Fund, and Sport England) and the associated grant making programmes (in house and outsourced grant administered programmes). Claire delivered some training & mentoring projects for the FCO, DFID and the World Bank in addition to work on European Social Fund projects. Within Local Government Claire has undertaken a wide range of audits with a focus on legal compliance, contracts and governance arrangements. Other audit experience covers outsourcing functions, due diligence, and fraud investigations.

Jo Herrington PIIA (Senior Auditor): Jo joined the audit partnership on 30 September 2013. She joined the partnership from Gravesham BC, where she worked for nearly nine years. She gained experience of working in the Finance department and the Revenues department before settling in the Internal Audit team in September 2009, who operated a shared management arrangement with Tonbridge & Malling BC. As part of the Internal Audit team she gained broad experience conducting financial and operational audit reviews, as well as being involved in working groups across the authority. Jo was promoted to the position of Senior Auditor during the 2015 restructure.

Jen Warrillow PIIA (Senior Auditor): Jen joined Mid Kent Audit in September 2013 from Kent County Council where she trained as an Internal Auditor. In 2015, Jen completed study for Practitioner of the Institute of Internal Auditors status. At KCC Jen undertook a wide range of audits including financial, governance and grant funding internally for the Council and externally for Parish Councils. Previous to joining KCC, Jen worked as an investigator for Swale BC and then Tonbridge & Malling BC. Jen was promoted to the position of Senior Auditor during the 2015 restructure. Jen is currently on maternity leave, scheduled to return to the team in July 2016.

Paul Goodwin AAT (Auditor): Paul has been employed by Tunbridge Wells Borough Council for over 26 years of which nearly all has been in Internal Audit. Paul is a qualified Accounting Technician.

Andy Billingham (Auditor): Andy joined the Partnership on 7 December 2015. He had previously worked for Swale Borough Council for 10 years within the Revenues and Benefits department gaining extensive knowledge of local government processes and procedures whilst dealing with complex disputes and representing the authority at Tribunals. Andy holds a degree in History as well as an Institute of Revenue Rating and Valuation qualification

Trainee Auditors & Others

Ben Davis (Trainee Auditor): Ben joined the team in March 2015 as a trainee auditor. He holds a degree in Modern History from UEA and has previous experience in finance teams in the private and voluntary sectors. Ben began training towards achieving a professional qualification through the Chartered Institute of Public Finance and Accountancy (CIPFA) and was successful in passing the first stage of the qualification in December 2015.

Helen Pike (Trainee Auditor): Helen joined the audit team in July 2015 as a trainee auditor. Her previous work experience is extensive and incorporates spells in occupations as diverse as TV programme scheduling and emergency ambulance despatch but joined us most recently from the finance and administration team of the Kent Institute for the Blind. Helen has recently embarked on studying for the Institute of Internal Audit Professional Certificate as the first step towards becoming a Chartered Internal Auditor (CIA).

Louise Taylor (Audit Team Administrator): The Audit Partnership restructure in 2015 created the role of audit team administrator to assist the team in various tasks including monitoring performance management, archiving our reports and managing our audit software. Following a trial period, this post was taken by Louise who had previously worked in the Planning department of Maidstone Borough Council and has extensive experience working with local authorities.

We also have facility within the audit service to seek and deploy additional specialist resource depending on the needs of the service and of our local authority partners.

Appendix C: Assurance and Recommendation Ratings

Assurance Ratings 2016/17 (unchanged from 2014/15 and 2015/16)

| Full Definition | Short Description |
|---|--|
| <p>Strong – 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>Sound – 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>Weak – 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>Poor – 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 2016/17 (unchanged from 2014/15 and 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 D: Performance Indicators

| Area | Ref | Indicator |
|-----------------------|-----|------------------------------------|
| Finance | F1 | Cost per audit day |
| | F2 | Audits completed on budget |
| | F3 | Chargeable days |
| Internal Process | I1 | Full PSIAS conformance |
| | I2 | Audits completed on time |
| | I3 | Draft reports on time |
| Customer | C1 | Satisfaction with assurance |
| | C2 | Final reports on time |
| | C3 | Satisfaction with conduct |
| Learning & Developing | L1 | Implemented recommendations |
| | L2 | Training plan achieved |
| | L3 | Satisfaction with skills |

Agenda Item No: 8

Report To: Audit Committee

Date: 15th March 2016

Report Title: Strategic Risk Management

Report Author: Nicholas Clayton, Policy and Performance Officer
Michelle Pecci, Head of Personnel and Development
Paul Naylor, Deputy Chief Executive



Summary:

Over the past few months Officers have reviewed the content of the council's risk register in the light of the council's adoption of a new corporate plan and ongoing work to develop its supporting delivery plan. The refreshed corporate risk register aims to collate in one place and on a common structure the headline strategic risks identified by management as potentially affecting achievement of our corporate aims. By its nature the register represents a view at a particular point in time. Although the register and its detailed content will change over time, initial impetus for this creation comes from a number of risk workshops involving service and senior management at Ashford held in late 2015 and early 2016.

Although a number of different risks were identified and discussed at the workshops, this paper summarises those regarded as most prominent. In other words these are the risks that could present the greatest threat to the authority being able to achieve its corporate objectives.

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

- 1. Consider the draft Strategic Risk Register.**
- 2. Endorse the Strategic Risk Register ahead of receiving a review of the Register in six months.**

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

Report Title: Strategic Risk Management

Purpose of the Report

1. The purpose of this report is to enable Members to view and comment on these risks and the initial assessments by management. Risk owners at senior management level are noted on the register. The owners will be responsible for continuing to assess levels of risk, and identify, create and monitor appropriate control measures.
2. It is proposed to provide updates to the committee at six monthly intervals, allowing scope for the committee to explore any particular risk areas in more depth.

Background

3. In September 2015 Members of the Audit Committee approved a new and refreshed approach to how the Council identifies and manages risk. At the heart of this approach was a common set of parameters to evaluate risk (while not removing the key role of informed judgement) and a dynamism that sought to ensure the highest priority risks identified were those that genuinely posed threats to the authority's achieving its objects at any given time.
4. Following approval of that process, the Council's policy team – working with the advice and support of Mid Kent Audit – led a range of training events and workshops seeking to publicise and familiarise risk management as a discipline. As a parallel strand, the Council sought to revisit its 'corporate risk register', acknowledging that the present version both needed to be brought into line with both the new risk framework and the new corporate plan, as the original register had lost its currency since initial compilation.
5. A further thread of the risk management work will be to roll it out across service level risk registers. This is an important aspect since an organisation can equally be derailed by a significant unexpected operational issue as it might a more strategic or corporate event – there are plenty of examples of this happening across local government. Once again led by the Council's policy team with support from Mid Kent Audit, this will take place through 2016 with the aim of building a fully comprehensive risk register, of which we will update Members on the highest priority matters.
6. By its nature the register represents a view at a particular point in time. Although the register and its detailed content will change over time, initial impetus for this creation comes from a number of risk workshops involving service and senior management at Ashford held in late 2015 and early 2016.
7. Although a number of different risks were identified and discussed at the workshops, this paper summarises those regarded as most prominent. In other words these are the risks that could present the greatest threat to the authority being able to achieve its corporate objectives.

Stages of Development

8. The new approved risk identification and assessment framework (as reported to the Committee in September) was tested and then used by service management to create an initial set of service and project risks. That work however preceded the completion of the corporate plan and work to define its supporting delivery plan (essentially the portfolio of key projects and other objectives that are designed to secure delivery of the corporate plan over the coming years).
9. Consequently work was refocused (in the short-term) to commence the identifying of those strategic issues that should be reflected in a strategic risk register supporting the main themes of the corporate plan.
10. This strategic focus was the subject of the more recent workshops, and as such the draft register that is reported as part of this report is a distillation of that work involving the management team.
11. As in the nature of the subject there was a wider set of risk topics that were identified, but the in the interests of focusing on the key issues some topics were combined or were agreed as not sufficiently strategic at this point.
12. The longer list of topics is reported below:
 - a. Council reputation
 - b. Labour availability
 - c. Limited resources
 - d. The Local Plan
 - e. Government policy
 - f. Partnerships
 - g. Technology
 - h. Workforce skills and capacity
 - i. Infrastructure
 - j. EU referendum
 - k. Community capacity
 - l. Town centre
 - m. Economic position
13. From this long list the subsequent follow up work has blended outcomes from the initial work identifying key project and service risk issues with a refined list of key strategic risk themes that best capture the key issues and to which the council either has some influence over or must respond to, which may, if not mitigated, present the council with some difficulty in achieving its corporate aims.
14. From the attached draft register members will see **seven** main themes with more description of the scope of the risk and of current 'controls'.

The Wider Risk Management Framework

15. In September 2015 the Committee received a report on the wider Risk Management Framework. Alongside the council's Strategic Risks, which are dealt with in this report, the wider Risk framework incorporates both Programme Risks and Service Risks

Programme Risks

16. A new Programme Manager was appointed in January, and has been working to enhance the council's overall processes in relation to project delivery and programme management. This will involve new documents and procedures to assist project managers, and new reporting and monitoring arrangements to ensure that senior management are made aware of the progress and status of initiatives. Included within this is a more comprehensive, shared understanding of the risk profile and status of individual projects.

Service Risks

17. The Policy and Performance Team is redeveloping the service planning template so that it more easily supports management of risks and services are more able to identify and monitor risks.
18. Attitude towards risk are major influencers on corporate culture, and all staff should be aware of the relevance of risk to the achievement of their objectives, and how proper assessment and attitude towards risk can help improve performance. An awareness campaign will be developed showing staff how well managed risks can have a positive impact (examples will include reducing unnecessary controls, putting mitigation in place to avoid abortive work, and how acceptance of inherent risks are acceptable).
19. Training to support staff in risk management will be built into the 2016/17 training programme.
20. As noted above, since the agreement of a new Corporate Plan in December, this work was refocused (in the short-term) to commence the identifying of those strategic issues that should be reflected in the strategic risk register found in Appendix 1.

Handling and Next Steps

21. The overarching seven risk themes included within the Summary Strategic Risk Register in Appendix 1 have been discussed and agreed by the council's Management Team (and subsequent workshop).
22. Risk owners are currently working on the detail of their risks to ensure that existing and planned controls and overall risk ratings are fully considered, assessed and documented.

23. Accordingly, and while noting that the thematic nature of the seven strategic risks means that they will change over time, the outcomes of this initial assessment are ongoing and will be tabled at the committee.
24. Once the Committee has considered and adopted this framework the next step is for management to work up the necessary mitigation plans for each theme. It is recommended this work be completed over the next two months with progress being reported to the management team and the Committee in the summer.
25. This would be ongoing at the same time as finalising the corporate delivery plan which provides a further opportunity to test the content of the strategic risk register.

Contact: Nicholas Clayton, Policy and Performance Officer

Email: Nicholas.clayton@ashford.gov.uk

Appendix 1 – Ashford Borough Council’s Summary Strategic Risk Register

From the work completed to date by the council’s management team (with the support of the Internal Audit Team) there are seven particular areas of risk identified. These are summarised below, along with an indication of scoring against the guidelines in the risk strategy.

It is important to note that this is a summary; for each of these issues there will be a range of controls and mitigation processes and Members can obtain more detail from the relevant risk owner.

It is also important to note that this is a current position. In line with the aim of the risk strategy to produce a dynamic and current picture of the risk environment facing the Council, it will be kept up to date and so issues can and will change scores over the year and may fall from prominence among this summary group. However, the risks – insofar as they remain relevant – will continue to be monitored and controlled by the relevant officers.

Ashford Borough Council's Strategic Risk Register - Summary

| Ref | Overarching Risk (short title) | Overarching Risk Description | Examples of Risk Elements in Scope | Risk Owner | Key Existing Controls | Inherent rating | | |
|-----------|--------------------------------|---|--|-------------------------|---|-----------------|--------|-------|
| | | | | | | Impact | L'hood | Grade |
| ABC1603/1 | Workforce skills & capacity | ABC cannot recruit or retain sufficient capacity and capability in its workforce to pursue its corporate objectives. | <ul style="list-style-type: none"> Risk that resources will not meet requirements on: staffing, funding, equipment (particularly IT), accommodation, training, elected members, etc., particularly with future organisational changes | Michelle Pecci | <ul style="list-style-type: none"> Succession Planning Strategy Engagement Strategy Learning & Development Strategy Flexible resourcing framework that gives ability to access to short term skilled staff Business continuity plans MTFP and budget monitoring processes Programme management processes Risk Framework | | | |
| ABC1603/2 | Housing & Infrastructure | Infrastructure projects being delivered by others but required to support ABC's development goals are delayed, abandoned or mismanaged. | <ul style="list-style-type: none"> Risk of individual affordability & skills gaps leading to inability to obtain housing Lack of funding for necessary infrastructure needed to maintain prime location status Risk of not attracting developers to ensure a supply & range of housing to meet diverse needs & emerging markets Under provision across borough of new or refurbished sports, cultural and leisure facilities | Richard Alderton | <ul style="list-style-type: none"> Town Centre Delivery Board New Local Plan HRA business plan | | | |

| | | | | | | | | |
|-----------|----------------------|---|---|----------------------|--|--|--|--|
| ABC1603/3 | Key Project Failure | One or more of the Council's key projects fails to deliver with consequent impacts on ABC's reputation, finances and service outcomes. | <ul style="list-style-type: none"> • Risk to momentum by losing key components of crucial projects, e.g failure to attract sufficient leisure /entertainment to ensure development of a vibrant town centre • Risk (to choice & to funding/investment) of not attracting sectoral industries | Paul McKenner | <ul style="list-style-type: none"> • ASDB • Programme management • Town Centre Regeneration Board | | | |
| ABC1603/4 | Resource limitations | ABC suffers further loss of government income, failure to achieve income or successfully control expenditure. | <ul style="list-style-type: none"> • Risk (to self-sufficiency) of not generating an additional £2m p.a. by 2020 (split on NNDR; fees & charges; NHB & other income generation measures) • Risk (to income generation and housing supply) of housing growth not delivering predicted NHB levels (under new 4-year regime) | Ben Lockwood | <ul style="list-style-type: none"> • MTFP • NHB strategy • Budget monitoring • HRA business plan • Budget scrutiny • Borrowing policy • S151 officer • Pro-active income generation | | | |
| ABC1603/5 | Partnerships | Loss of effective working relationships in one or more of the partnerships ABC has developed and relies upon to achieve its objectives. | <ul style="list-style-type: none"> • Risk that resources will not meet requirements for different organisational /partner relationships • The risks / opportunities provided by the devolution agenda and future shared services • Risk of managing ongoing contractor relationships | Tracey Kerly | <ul style="list-style-type: none"> • ASDB • H&WB • Contract management • Attendance of Kent & Medway Chief Executives • Town Centre Regeneration Board • East Kent Regeneration Board • JTB | | | |

| | | | | | | | | |
|-----------|--------------------|---|--|---------------------|---|--|--|--|
| ABC1603/6 | Community capacity | Insufficient capacity within Ashford to accommodate ABC's aims for working with the community. | <ul style="list-style-type: none"> • Consequences of not improving council-owned management of leisure & cultural facilities • Risk that the council can't meet evolving community expectations regarding service levels (especially in light of changes in delivery models) • Risk that the council is unable to meet demands in <u>new</u> communities • Risk of secondary impacts of devolution (on Parish Council or other hyper-local colleagues) | Tracey Kerly | <ul style="list-style-type: none"> • Parish forum • New Local Plan • Communications Strategy | | | |
| ABC1603/7 | Reputation | The council is seen as unable to deliver on its priorities, or the wider expectations of the community and partners | <ul style="list-style-type: none"> • Risk that the council is not seen as a reliable partner in key project delivery • Failure to manage the housing landlord role & demands for housing • Risk of not delivering quality gateways, borough presentation & approaches to town centre • Risk that not all residents & businesses have a fair deal by inconsistent and/or insufficient enforcement of quality & compliance | Tracey Kerly | <ul style="list-style-type: none"> • Satisfaction surveys • Communications strategy | | | |

Strategic Risk Register - Summary

| | | | | | | | |
|-------------------|---|---------------|-------------|-------------|-------------|--------|---|
| LIKELIHOOD | 5 | Yellow | Yellow | Red | Black | Black | |
| | 4 | Light Green | Yellow | Red | Red | Black | |
| | 3 | Light Green | Yellow | Yellow | Red | Red | |
| | 2 | Blue | Light Green | Yellow | Yellow | Yellow | |
| | 1 | Blue | Blue | Light Green | Light Green | Yellow | |
| | | | 1 | 2 | 3 | 4 | 5 |
| | | IMPACT | | | | | |

Agenda Item No

9 (a) - (c)

Report To:

Audit Committee

Date:

15 March 2016

Report Title:

External Auditor Reports:

- a) 2014-2015 Grant Certification Letter**
- b) 2015 - 2016 Audit Plan Update**
- c) 2015 - 2016 Audit Committee Update**

Report Author:

Lisa Robertson (Engagement Manager, Grant Thornton UK)
Paul Naylor (Deputy Chief Executive), covering summary

Summary

This is a covering summary to three reports from Grant Thornton UK, external auditor to the Council. Elizabeth Olive (Engagement Lead) and Lisa Robertson (Engagement Manager) will be attending from Grant Thornton and will introduce the reports and take questions.

The first report presents the certification letter following completion of the audit of the housing benefit grant claim. The grant claim was significant (£36.7million) and following further sample testing the auditors made no amendment or qualification to the claim.

The second report updates the committee on the auditor's work and plans for the current financial year's financial audit. It highlights some key areas of focus for the auditor and the assurance testing to be applied and of approaches to materiality, risk identification, and the value for money assessment. The report also summarises the auditor's interim findings where no matters of concern are identified for reporting.

The third report is another in the series of general updates from the auditor. This update includes references to a number of recent publications of topical interest to members and officers. Of particular note is a reference to guidance having been recently issued by CIPFA concerning the new requirement for 'auditor panels' for when councils have the ability to procure their own external audit. The Committee will receive a full report on this issue at its next meeting. Note that

for this council a decision to appoint an external auditor must be taken and awarded by no later than 31 December 2017.

Key Decision: Not applicable

Affected Wards: None specifically

Recommendations: **The Committee is asked to note and consider the three reports attached from our external auditor, Grant Thornton Uk plc:**

i) to note the 2014-2015 grant certification letter

ii) to note the 2015-2016 audit plan update

iii) to note the Audit Committee Update

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

Financial Implications: None arising

Other Material Implications: The matters referred to in Grant Thornton's national reports (see the Audit Committee Update) will help to inform officers' future work and reports, and members' decisions over the coming months.

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Grant Thornton

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22 February 2016

Dear Paul

Certification work for Ashford Borough Council for year ended 31 March 2015

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

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments Ltd (PSAA) have taken on the transitional responsibilities for Housing Benefit Subsidy certification requirements (HB COUNT) issued by the Audit Commission in February 2015.

We have certified one claim for the financial year 2014/15 relating to expenditure of £36.7 million. Further details of the claim certified are set out in Appendix A.

We wish to highlight the following issue arising from our certification work which we identified as a result of our detailed testing on the Council's Housing Benefit Subsidy Return. As part of our initial testing we identified one error as detailed below. Under the HB COUNT approach, where we identify errors we are required to undertake additional testing before we determine if we are able to adjust the claim or issue a qualification letter.

- Non-HRA Rent Rebates: initial testing identified one case where the incorrect determination of earned income resulted in an underpayment of benefit. Further testing of the full population of 31 cases identified one further error, also resulting in an underpayment. As a result no amendment or qualification to the claim was required.

In addition, we are required to complete testing of an additional 40 cases for errors identified in prior years that could remain in the population. We completed additional testing in the following areas:

- HRA Rent Rebates: testing of 40 cases to confirm correct occupational pension rates were used in calculating benefit entitlement identified no errors
- HRA Rent Rebates: testing of 40 cases to confirm correct classification of overpayments as claimant error identified no errors.

Aside from the above issues, we are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the national non-domestic rates return, teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £14,200. This is set out in more detail in Appendix B. The level of additional work required to certify the Council's Housing Benefit Subsidy Return, is in line with the level required in 2012/13 and we therefore propose no additional fee.

Yours sincerely

Emily Hill
For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

| Claim or return | Value | Amended? | Amendment (£) | Qualified? | Comments |
|---|--------------|-----------------|----------------------|-------------------|---|
| Housing Benefits Subsidy Return (BEN01) | £36,746,125 | No | N/A | No | One error identified in initial testing resulted in an underpayment. Testing of full population identified one further error which also resulted in an underpayment. As a result no amendment or qualification is required. |

Appendix B: Fees for 2014/15 certification work

| Claim or return | 2012/13 fee (£) | 2014/15 indicative fee (£) | 2014/15 actual fee (£) | Variance (£) | Explanation for variances |
|---|------------------------|-----------------------------------|-------------------------------|---------------------|--|
| Housing Benefits Subsidy Return (BEN01) | 16,130 | 14,200 | 14,200 | -1,930 | The fee level for 2014/15 was as set by the Audit Commission based on the level of work required in 2012/13. The reduction also includes the Audit Commission overall reduction in fee levels for 2014/15. |
| Total | 16,130 | 14,200 | 14,200 | -1,930 | |

The Audit Plan for Ashford Borough Council

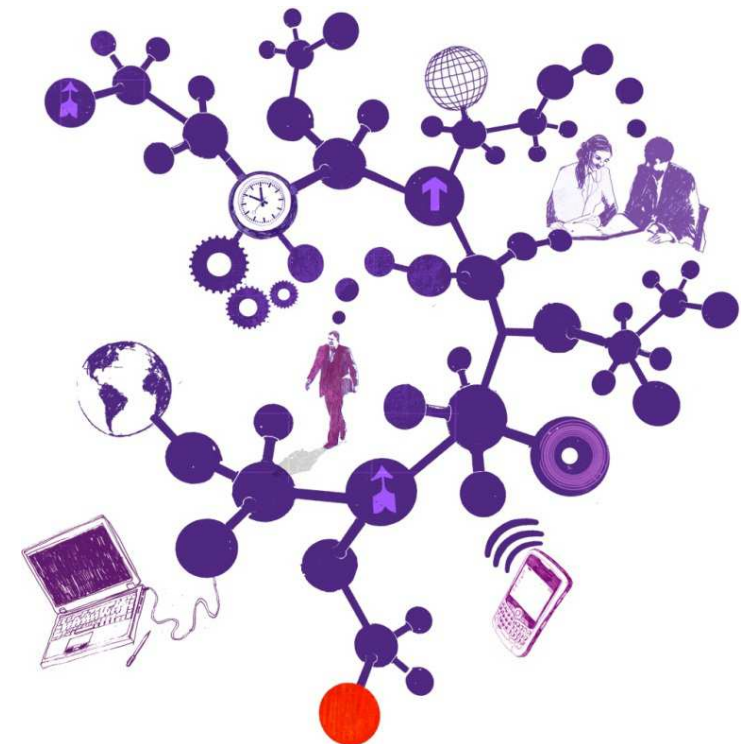
Year ending 31 March 2016

03 March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Ashford Borough Council
Civic Centre,
Tannery lane,
Ashford
TN23 1PL

3 March 2016

Dear Members of the Audit Committee

Audit Plan for Ashford Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance Audit Committee, an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth Olive
Engagement Lead

Chartered Accountants

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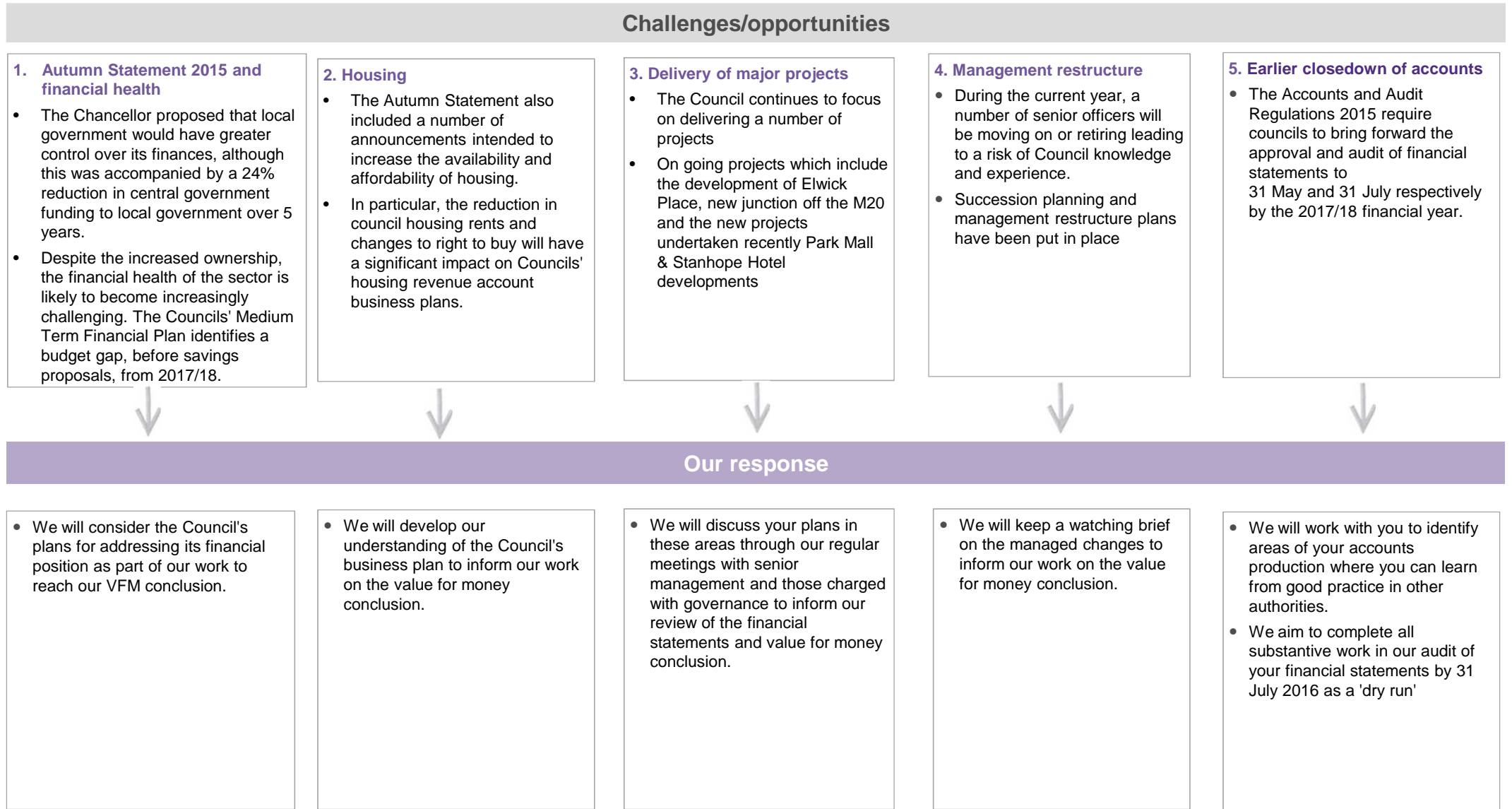
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Understanding your business

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



Developments and other requirements relevant to your audit

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

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Joint arrangements & Local Authority Trading Companies (LATC)

- The Council is involved in a business rates pool for the first time in the current year
- The Council operates 2 LATCs which they need to account for.

4. Other requirements

- The Council is required to submit a Whole of Government accounts pack.
- The Council completes grant claims and returns on which audit certification is required

Our response

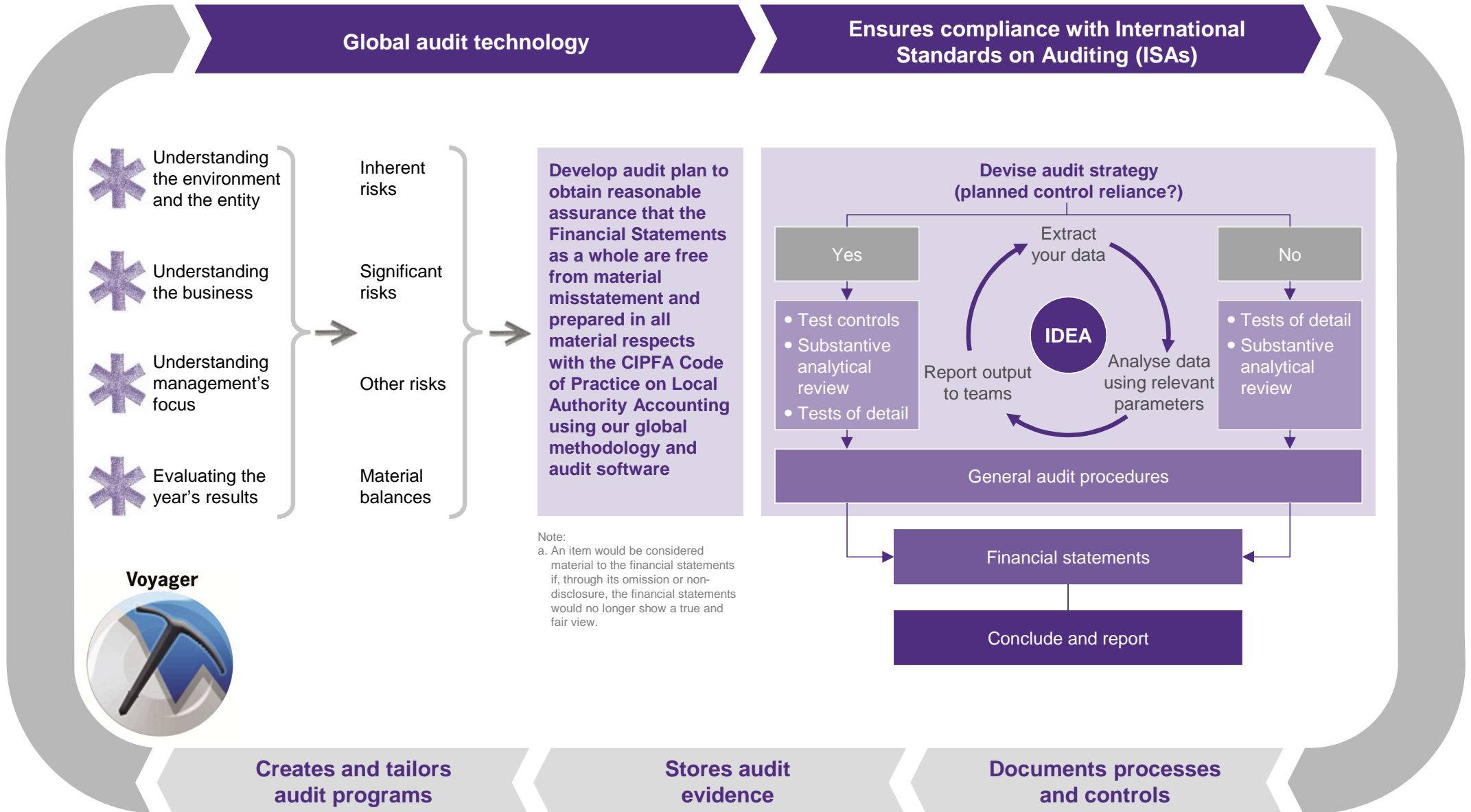
- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,169,000 (being 1.8% of gross revenue expenditure) .We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £58,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

| Balance/transaction/disclosure | Explanation | Materiality level |
|---|---|-------------------|
| Cash and cash equivalents | As all transactions made by the Council affect the balance and it is therefore considered to be material by nature. As this is public money we will look at getting additional assurance. | £500k |
| Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10k |
| Disclosure of auditors' remuneration in notes to the statements | Due to public interest in these disclosures and the statutory requirement for them to be made. | £10k |

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

| Significant risk | Description | Substantive audit procedures |
|--|---|---|
| The revenue cycle includes fraudulent transactions | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Ashford Borough Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Ashford Borough Council, mean that all forms of fraud are seen as unacceptable. |
| Management over-ride of controls | Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities. | <p>Work completed at interim:</p> <ul style="list-style-type: none"> • Assessment of internal controls in place relating to the posting of journal entries • Testing of journal entries for months 1 - 9 • Reviewed unusual significant transactions <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 10 - 12 • Review of unusual significant transactions |

Other risks identified

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

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

| Other risk | Description | Audit approach |
|--|---|---|
| Valuation of property, plant & equipment | <p>The Council gets its valuers to perform a revaluation on its assets on a 5 year rolling plan and those that aren't revalued have a desktop revaluation performed.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>(Revaluation measurements not correct)</p> | <p>Work completed to date:</p> <ul style="list-style-type: none"> Review of the competence, expertise and objectivity of any management experts used. Written to valuation experts to determine the instructions issued and the scope of their work Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. <p>Further work planned:</p> <ul style="list-style-type: none"> Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. |
| Valuation of pension fund net liability | <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>(Valuation of the Pension Fund assets and Liabilities have been incorrectly valued)</p> | <p>Work planned:</p> <ul style="list-style-type: none"> We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. |

Other risks identified (continued)

| Other risks | Description | Audit approach |
|-----------------------|---|--|
| Operating expenses | <p>Creditors understated or not recorded in the correct period</p> <p>(Operating expenses understated)</p> | <p>Work already performed :</p> <ul style="list-style-type: none"> • We have identified the system controls and walked through the operating expense system • We have performed early substantive testing on a sample of operating expenses from Month 1-9 <p>Work planned:</p> <ul style="list-style-type: none"> • Testing the reconciliation of operating expenditure recorded in the general ledger to the subsidiary systems and interfaces • Cut off testing to assess whether transactions are recorded in the correct period • Substantive testing of operating expenditure payments for months 10-12 • Substantive testing of year end payable balances • Procedures to gain assurance that material goods and services received prior to the year are correctly accrued |
| Employee remuneration | <p>Employee remuneration accruals and expenses are understated</p> <p>(Remuneration expenses not correct)</p> | <p>Work already performed :</p> <ul style="list-style-type: none"> • We have identified the system controls and walked through the payroll system • We have begun the substantive testing of payroll payments <p>Work planned:</p> <ul style="list-style-type: none"> • Testing the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces • Trend analysis and risk identification for monthly payroll costs to confirm completeness of payroll transactions and appropriate cut-off • Complete substantive testing of payroll payments, assessing whether payments are made in accordance with the individual's contract of employment and deductions are correctly calculated |

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include

- Heritage assets
- Welfare Expenditure
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

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

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out below:

| Sub-criteria | Detail |
|---|--|
| Informed decision making | <ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of good governance Understanding and using appropriate cost and performance information to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control |
| Sustainable resource deployment | <ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| Working with partners and other third parties | <ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities. |

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies,
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

The significant risks identified as part of the initial risk assessment are set out on the following page. We have set out our planned work for 2015/16 to address these risks to meet our duties in respect of the VfM conclusion.

Reporting

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

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

| Significant risk | Link to sub-criteria | Work proposed to address |
|---|--|--|
| <p>Commercial development The Council is involved in a number of new commercial activities such as park mall and international house. The Council's business programme includes a number of key projects and investments, which are significant both in scale and financial terms.</p> | <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities, Managing assets effectively to support the delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p> | <p>We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p> |
| <p>Changes to the management team There are a number of changes in senior officers this year including CE, DoF, Head of IT and Head of Culture and Environment. The Council has put in place succession plans to address the loss of Council knowledge and experience.</p> | <p>This links to the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities and managing risks effectively and maintaining a sound system of internal control.</p> | <p>We will review the Council's succession plans to establish how the Council is identifying, managing and monitoring the impact of changes to the management team.</p> |

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will include our conclusion as part of our report on your financial statements.

Results of interim audit work

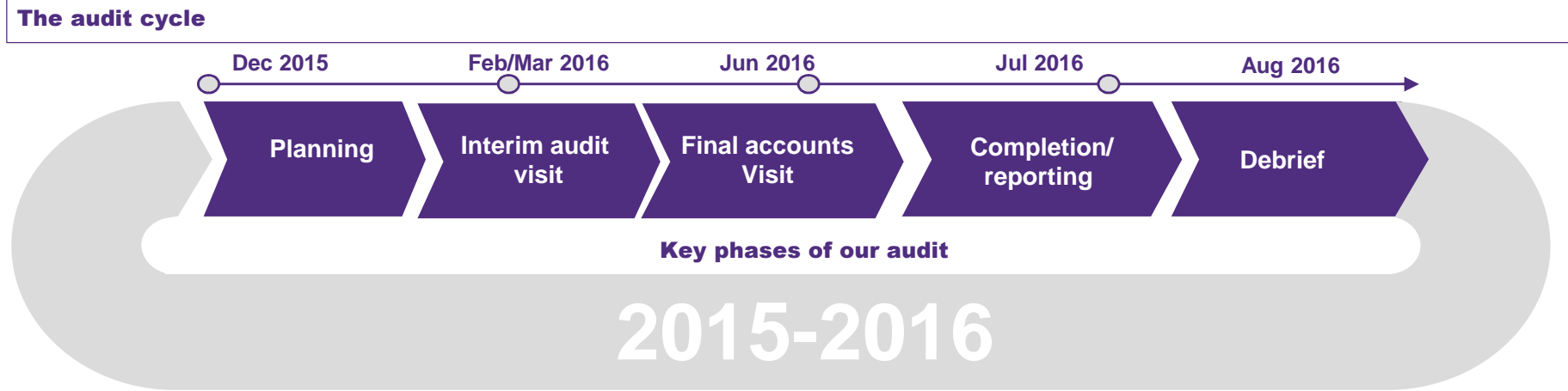
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

| | Work performed | Conclusion |
|------------------------------|---|---|
| Internal audit | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p> | <p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p> |
| Walkthrough testing | <p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements, namely:</p> <ul style="list-style-type: none"> • Valuation of Property, Plant and Equipment (to be completed) • Valuation of pension fund net liability (to be completed) • Operating Expense • Employee remunerations <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> | <p>At this stage our work has not identified any weaknesses which impact on our audit approach. Valuations of Property, Plant and Equipment and pension fund net liability are yet to be completed at the time of planning and we will update you on this once they have been finalised.</p> |
| Entity level controls | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p> |

Results of interim audit work (continued)

| | Work performed | Conclusion |
|--|--|--|
| Review of information technology controls | Our information systems specialist are planned to perform a high level review of the general IT control environment during March 2016, as part of the overall review of the internal controls system. | We will report back on this once they have completed their work. |
| Journal entry controls | We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements. We will undertake detailed testing on journal transactions, by extracting 'unusual' entries for further review. | Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |

Key dates



| Date | Activity |
|---------------------|--|
| December 2015 | Planning |
| February/March 2016 | Interim site visit |
| March 2016 | Presentation of audit plan to Audit Committee |
| June 2016 | Year end fieldwork |
| July 2016 | Audit findings clearance meeting with Director of Finance |
| July 2016 | Report audit findings to those charged with governance (Audit Committee) |
| July 2016 | Sign financial statements opinion |

Fees and independence

Fees

| | £ |
|---|---------------|
| Council audit | 60,311 |
| Housing Benefit grant certification | 8,112 |
| Total audit fees (excluding VAT) | 68,423 |

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

| Service | Fees £ |
|---|-------------|
| Audit related services: <ul style="list-style-type: none">• Certification of housing pooling capital receipts return | tbc* |
| Non-audit services | nil |

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter. We are expecting the DCLG will require assurance on Pooling of Capital Receipts returns over £125,000 in line with 2014/15. *Once this is confirmed we will agree the scope and fee of this engagement.

Independence and ethics

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

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

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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



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Audit Committee Update

Ashford Borough Council

Year ended 31 March 2016

March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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

- a summary of emerging national issues and developments that may be relevant to you; 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, 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
- Knowing the ropes: Audit Committee effectiveness review
- Reforging local Government: financial health and 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 March 2016

| Work | Planned date | Complete? | Comments |
|---|----------------------------|-------------|--|
| <p>Fee Letter We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015.</p> | April 2015 | Complete | <p>The Commission published the work programme and scales of fees for the audit of the 2015/16 accounts reducing scale audit fees for Councils by 25%.</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 psaa.co.uk.</p> |
| <p>2015-16 Accounts Audit Plan and interim audit We are required to issue a detailed accounts Audit Plan to the Council setting out our proposed approach in order 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"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing | November 2015 - March 2016 | Complete | <p>The audit plan is included separately on this agenda.</p> <p>As in previous years, we have sent letters to the Chair of the Audit Committee and the Director of Finance, requesting views on management's arrangements and member oversight, to prevent and detect fraud and to ensure compliance with laws and regulations.</p> |
| <p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Trust's accounts | June 2016 | Not yet due | <p>The findings from this work will be presented within our Audit Findings Report, presented to the Committee in July 2016 or September 2016.</p> |

Progress at March 2016

| Work | Planned date | Complete? | Comments |
|---|----------------------------|-------------|--|
| <p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2015/16 VfM conclusion has recently been subject to consultation from the National Audit Office.</p> <p>Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:</p> <p><i>In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.</i></p> <p>The following sub-criteria are intended to guide auditors in reaching their overall judgements:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties. <p>We will be required to report by exception if we conclude that we are not satisfied that the Council has in place proper arrangements to secure value for money in the use of its resources for the period.</p> | Jan 2016 – June 2016 | Not yet due | <p>The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015. The guidance is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors</p> <p>We have completed an initial risk assessment to determine our approach as reporting in the audit plan. The audit plan is included separately on the agenda.</p> <p>Our work will be reported in the Audit Findings Report presented to the September meeting of the Audit Committee.</p> |
| <p>Housing Benefits 2015/16</p> <p>We are required to certify the Housing Benefit Claim in accordance with HBCOUNT approach.</p> | August 2016 – October 2016 | Not yet due | We certified the 2014/15 claim by end November 2015 deadline with no amendments or qualification letter. The certification letter is included separately on the agenda. |
| <p>Other activity undertaken</p> <p>Since our last update, we have continued discussions to support the trading company audits and tax compliance and issued our LG financial health and governance review.</p> | - | - | We would always be happy to discuss any other ways in which Grant Thornton can support the Council. |

Reforging local government: Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

CFO Insights— driving performance improvement

Grant Thornton and CIPFA Market insight

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.



Innovation in public financial management

Grant Thornton Insight

In December 2015 we issued our report '*Innovation in public financial management*' which can be found on our website at:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons of one major financial crisis, but with how governments can live with less over the long term.



CIPFA reports and publications

Local Government Issues

Audit Panels

In December 2015 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its guidance on the establishment of auditor panels.

Under the Local Audit and Accountability Act 2014 'relevant authorities' are able to appoint their own local auditors via an auditor panel. The Secretary of State for Communities and Local Government has decided to implement a phased introduction of the new local audit framework, with all health bodies and smaller local government bodies moving to the new framework as planned on 1st April 2017 and larger local government bodies a year later, on 1st April 2018. In practice, this means that smaller local authorities must have appointed their local auditors by 31st December 2016 and larger principal authorities by 31st December 2017.

The guidance sets out the options available to local authorities in England for establishing an auditor panel; what form such a panel can take; the operation and functions of the panel; and the main task of the panel – that is, advising the authority in connection with the appointment of the local auditor

Council accounts: a guide to your rights

The NAO has published an updated version of Council accounts: a guide to your rights on its website. The guide has been updated to reflect the new requirements of the Local Audit and Accountability Act 2014, and applies to 2015-16 accounts. The document provides information on how people can ask questions and raise objections about the accounts of their local authority.

<https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

Arrangements for the exercise of public rights:

The Accounts and Audit Regulations 2015 set out new arrangements for the exercise of public rights from 2015/16 onwards. A key implication of the Act is that the final approval of the statement of the accounts by an authority prior to publication cannot take place *until after the conclusion of the period for the exercise of public rights*. As the thirty working day period for the exercise of public rights must include the first ten working days of July, authorities will not be able to approve their audited accounts or publish before 15th July 2016.

Smaller authorities must also wait until the conclusion of the thirty working day period for the exercise of public rights before publishing their accounts and the auditor's report.

Results of auditors' work 2014/15

Public Sector Audit Appointments

Following the closure of the Audit Commission on 31st March 2015, Public Sector Audit Appointments (PSAA) became responsible for appointing auditors to local Government bodies and for overseeing the delivery of consistent, high-quality and effective external audit services. The Audit Commission previously published Auditing the Accounts reports for Local Government bodies covering the 2012/13 and 2013/14 financial years. The reports summarised the results of the work of auditors appointed by the Commission at local bodies. This is the first such report published by PSAA, and it summarises the results of auditors' work at 509 principle bodies and 9,755 small bodies. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies, according to Public Sector Audit Appointments Limited's *Report on the results of auditors' work 2014/15: Local government bodies*.

- for principal bodies, auditors at 345 of 356 councils (97 per cent) were able to issue the opinion on the accounts by the statutory accounts publication date of 30th September 2015.
- 97 per cent of police bodies and fire and rescue authorities also received the audit opinion by 30th September 2015.
- for the second year in a row there have been no qualified opinions issued to date to principal bodies.
- the number of qualified conclusions on value for money arrangements has remained consistent with the previous year at 4 per cent (17 councils, one police body and one fire and rescue authority).

IFRS 13 'Fair value measurement'

Accounting and audit issues

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local authorities need to:

- identify/ review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.

Unlodged non-domestic rate appeals

Accounting and audit issues

Last year, there were primarily no provisions for unlodged non-domestic rates appeals as appeals received on or after 1 April 2015 were only backdated to 1 April 2015. The effect of last years announcement was supposed to put authorities in the position as if the revaluation had been done in 2015 as initially intended before the extension to 2017. This was only a one year reprieve and so any unlodged appeals at 31 March 2016 will only be backdated to 1 April 2015 and therefore may not be material.

However, this year, local authorities will need to estimate a provision for unlodged appeals but as above it may not be material.

Under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the Code it is in only extremely rare cases that a reliable estimate cannot be made. Therefore, if your local authority does have such an instance, the rationale needs backing up: both in terms of disclosures (as a contingent liability) and in providing evidence to those charged with governance as to why a reliable estimate for the provision cannot be made.

Website re-launch

Grant Thornton

We have recently launched our new-look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below -
<http://www.grantthornton.co.uk/en/insights/?tags=local-gov&q=sustainable+communities>





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Audit Committee - Future Meetings

***ADDITIONAL MEETING**

| | | | |
|--------------------------------------|--|-------------------------|--|
| Date 16/06/2016 | | | |
| Publish by 08/06/16 | | | |
| Reports to Management Team by | | Council 21/07/16 | |
| | | | |
| 1 | An Early Look at the Statement of Accounts for 2015/16 (Including Members Closing Training) | BL | |
| 2 | Safeguarding Audit Follow Up | RC/CF | |
| 3 | ICT Disaster Recovery Follow Up | RC/? | |
| 4 | Procurement and Appointment of External Auditors | PN | |
| 5 | Report Tracker for Future Meetings | DS | |

| | | | |
|---|--|-------------------------|--|
| Date 30/06/2016 | | | |
| Publish by 22/06/16 | | | |
| Reports to Management Team by 16th June | | Council 21/07/16 | |
| 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 | |

***ADDITIONAL MEETING**

| | | | |
|---|--|---------------------------|--|
| Date 28/07/2016 | | | |
| Publish by 20/07/16 | | | |
| Reports to Management Team by 14th July | | Council 20/10/16 | |
| | | | |
| 1 | Statement of Accounts 2015/16 and the External Auditor's Audit Findings Report | Gr Th (cover by PN/BL) | |
| 2 | Report Tracker & Future Meetings | DS | |

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|--|--|---------------------------|--|
| Date 29/09/2016 | | | |
| Publish by 21/09/16 | | | |
| Reports to Management Team by 15th September | | Council 20/10/16 | |
| | | | |
| 1 | Annual Governance Statement – Progress on Remediating Exceptions | PN/NC | |
| 2 | Statement of Accounts 2015/16 and the External Auditor's Audit Findings Report | Gr Th (cover by PN/BL) | |
| 3 | Strategic Risk Management | KH/RC | |
| 4 | Report Tracker & Future Meetings | DS | |

| | | | |
|---|--|-------------------------|--|
| Date 06/12/2016 | | | |
| Publish by 28/11/16 | | | |
| Reports to Management Team by 24th November | | Council 15/12/16 | |
| | | | |
| 1 | Annual Governance Statement – Progress on Remediating 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 | |

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|---|--|-------------------------|--|
| Date 21/03/2017 | | | |
| Publish by 13/03/16 | | | |
| Reports to Management Team by 9th March | | Council 20/04/17 | |
| | | | |
| 1 | Certification of Grant Claims – Annual Report | Gr Th (cover by ABC) | |
| 2 | Presentation of Financial Statements | MS | |
| 3 | Strategic Risk Management | KH/RC | |
| 4 | Annual Governance Statement – Progress on Remediating Exceptions | PN/NC | |
| 5 | Internal Audit Charter 2017/18 | RC | |
| 6 | Internal Audit Plan | RC | |
| 7 | External Audit Progress Report | Gr Th | |
| 8 | Report Tracker for Future Meetings | DS | |

7/3/2016