



Notice of a Meeting, to be held in the Council Chamber, Civic Centre, Tannery Lane,  
Ashford, Kent TN23 1PL on Tuesday 6<sup>th</sup> December 2016 at 7.00 pm.

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The Members of this Committee are:-

Cllr. Waters (Chairman)  
Cllr. Buchanan (Vice-Chairman)  
Cllrs. Krause, Link, 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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| 1. <b>Apologies/Substitutes</b> – To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii)                             |                      |
| 2. <b>Declarations of Interest:-</b> To declare any interests which fall under the following categories, as explained on the attached document: | 1                    |
| a) Disclosable Pecuniary Interests (DPI)  |                      |
| b) Other Significant Interests (OSI)  |                      |
| c) Voluntary Announcements of Other Interests   |                      |
| See Agenda Item 2 for further details   |                      |
| 3. <b>Minutes</b> – To approve the Minutes of the Meeting of this Committee held on the 29 <sup>th</sup> September 2016                         |                      |

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DS/AEH  
28<sup>th</sup> November 2016

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Queries concerning this agenda? Please contact Danny Sheppard:  
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**Declarations of Interest (see also “Advice to Members” below)**

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

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

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

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

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

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

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

**Advice to Members on Declarations of Interest:**

- (a) Government Guidance on DPI is available in DCLG’s Guide for Councillors, at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/240134/Openness\\_and\\_transparency\\_on\\_personal\\_interests.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/240134/Openness_and_transparency_on_personal_interests.pdf)
- (b) The Kent Code of Conduct was adopted by the Full Council on 19 July 2012, with revisions adopted on 17.10.13, and a copy can be found in the Constitution at <http://www.ashford.gov.uk/part-5---codes-and-protocols>
- (c) If any Councillor has any doubt about the existence or nature of any DPI or OSI which he/she may have in any item on this agenda, he/she should seek advice from the Corporate Director (Law and Governance) and Monitoring Officer or from other Solicitors in Legal and Democratic Services as early as possible, and in advance of the Meeting.

## Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **29<sup>th</sup> September 2016**.

### Present:

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

### Also Present:

Deputy Chief Executive, Corporate Director (Law and Governance), Head of Audit Partnership, Head of Finance, Audit Manager, Policy and Performance Manager, Senior Policy Performance and Scrutiny Officer, Senior Member Services Officer.

Lisa Robertson - Grant Thornton UK.

## 149 Minutes

### Resolved:

**That the Minutes of the Meeting of this Committee held on the 28<sup>th</sup> July 2016 be approved and confirmed as a correct record.**

## 150 Data Protection Audit Update

The Head of Audit Partnership introduced the report which set out progress since the Committee had received the 'weak' assurance review of Data Protection in March 2016. An addendum paper had also been tabled containing the correct paragraphs 8 and 9 to the report. In accordance with the agreed procedure, an action plan with recommendations had been agreed by Management Team and this Committee and dates set for implementation and a follow up. The follow up audit had been undertaken during the past month and the report noted that the assurance level remained 'weak' owing to limited progress on implementing recommendations, including some high priority matters which had an agreed target date of June 2016. Although some interim measures were in place, many of the recommendations still required a long term solution.

The Corporate Director (Law and Governance) accepted that progress had been disappointing and slower than expected and considered that the implementation dates in the original action plan had proved over optimistic. The plan had been put together in March 2016, before his Service had taken over the Data Protection function. It had been put together in good faith and acknowledging the importance of the issue, but inevitably without full knowledge of the situation. However, he did not want to make excuses and considered it would be preferable to outline the progress that had been made and the steps the Council was taking to improve the situation. He had informed the Audit Committee in March that there would be no 'quick fix' but

he considered it was important to note that whilst the assurance level remained 'weak', some significant progress had been made and that was reflected in the papers. There had been a staff awareness campaign, staff training (with more imminent), new Data Protection policies adopted by the Cabinet in July 2016 and a range of interim measures to mitigate the key risks such as breach handling and subject access logs. In addition, a key piece of work had begun corporately around revised arrangements for data storage and retention and this would take much of 2017 to complete. All Councillors were also now, for the first time, registered as Data Controllers with the Information Commission which was a significant improvement on the previous situation. The Corporate Director (Law and Governance) concluded by saying that whilst progress against the action plan was therefore disappointing, the direction of travel since March 2016 was positive. Furthermore, Management Team recognised that whilst it was an important element, simply awaiting the appointment of a Data Protection Officer was not a sustainable option. There had been discussions with colleagues at other Local Authorities about their experiences and responses to similar recommendations and Officers were also in discussion with a specialist consultant regarding support in making more rapid short term progress.

The Chairman said he had been extremely disappointed when reading the report. Of the six recommendations, only one had been fully implemented which was the lowest priority one. He asked if any consideration had been given to coming back to this Committee earlier when it became clear that they were not going to meet the timescales. The Committee may have been able to help and he considered they had been ignored. He was also quite concerned that the dates in the agreed action plan had proved so unrealistic and could not understand why that had been allowed to happen. He asked if the Committee could have any confidence that the action plan would be completed in an acceptable timescale. The Corporate Director (Law and Governance) said he considered that the Committee could take comfort in the progress so far as outlined in the report and that the future addition of some more capacity and expertise would further develop that. In terms of timing, he said his initial thought had been to discuss the matter with Internal Audit and the Chief Executive. He had considered that whilst it was clear they would not be able to reach the full plan, he had been hopeful that they could move closer towards a 'sound' rating by September. In hindsight he accepted an interim report back to Members should have been made and this was a learning point.

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

- Were the interim measures considered adequate and was the Council currently compliant? Clearly a new timeframe for delivery had to be drawn up quite promptly, but the deadlines had to be realistic. The Corporate Director (Law and Governance) said he did have confidence that the interim measures would act as mitigation, but they were not long term solutions. The point about prompt and realistic timescales was very important.
- There appeared to be inconsistencies between the decision to make the previous Data Protection Officer (DPO) redundant in early 2016, when many of the recommendations in the action plan now appeared to rest on the appointment of a new DPO. It also appeared likely that an appointment would

not now be in post until early 2017 and it was disappointing that this position was likely to drag on for nearly an entire year, with the Council seemingly not having the knowledge and skillset to fulfil the role. The Corporate Director (Law and Governance) advised that the post made redundant had a much wider role than purely Data Protection. There had been no intention to remove the role of DPO from the organisation, but no decision had been taken at that time whether this should be added to an existing post or if a new post should be created. Subsequently, the new European Directive including more stringent Data Protection requirements from May 2018 had been announced and it was now clear that a specialist DPO was the correct solution. A person specification and job description had been developed, and whilst this had taken too long, it had been important to properly decide how far information security should be part of the role and how senior the post should be. The Chairman said that in his view the appointment should be expedited as a matter of urgency. Many of the remedies to the problems in the report hinged on the appointment of a dedicated DPO and that Management Team should make that an urgent priority in the next couple of weeks.

- The Corporate Director (Law and Governance) reiterated that whilst they would continue to progress the appointment of a permanent DPO, it was also just as important to pursue the possibility of consultancy support in the short term to pick up the issue and begin to work on solutions in the interim.
- The reason why the lowest priority rating was the one that had been completed was largely because it had been the most straight-forward and it made sense to deal with it quickly and with minimum resource impact. They had however been working on the others at the same time, although they were inevitably more involved and complex to complete. There had been no decision to prioritise a 'low' priority over others.
- There was a wider learning point for Management Team in that when posts were made redundant, all roles and responsibilities therein were either properly re-allocated or truly redundant, before that individual left employment.

The Chairman said he hoped the strength of feeling of the Committee had been made clear. The Committee was disappointed and frustrated by the inability to meet the original deadlines in the action plan and what it viewed as minimal progress. The Committee agreed that a revised timetable for the action plan should be drawn up promptly and reported back to the next meeting in December and that Management Team should meet urgently to discuss progression of the appointment of a permanent DPO and inform the Chairman of the position in the next two weeks.

**Resolved:**

**That (i) the efforts made towards attempting to implement recommendations raised in the Data Protection Audit Report brought to this Committee in March 2016 be acknowledged.**

- (ii) the Committee receive a further update at its December meeting including a revised action plan and timetable for implementation.**
- (iii) the recruitment of a permanent Data Protection Officer be expedited and the Chairman be provided with an update in the next two weeks, with a further update to be included in the report to the December Audit Committee.**

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

The report updated on the progress made towards the areas of review highlighted by the 2015/16 Annual Governance Statement. The Senior Policy, Performance and Scrutiny Officer introduced the report and gave a detailed demonstration of the Council's new Performance Dashboard as referred to in the report. The dashboard was the culmination of a significant amount of work and would inform the work of both Officers and Members on a 'live' ongoing basis as well as through the quarterly performance reports to both Cabinet and Overview and Scrutiny. He also referred to the work ongoing to revise the Council's strategic risk management procedures and how that dovetailed with the report to be discussed later at the meeting.

The Chairman thanked the Officer for the presentation and said that the Performance Dashboard was impressive. The Portfolio Holder said he was extremely pleased with the system and he hoped that Portfolio Holders would take ownership of their own data.

### **Resolved:**

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

## **152 Good Governance Framework Audit**

The Senior Policy, Performance and Scrutiny Officer introduced the report which presented the Committee with the results of Internal Audit's recent four-Council review of preparedness for the revised CIPFA/SOLACE Good Governance Framework. This was considered and endorsed by the Committee in June as the Council's new 'Local Code of Corporate Governance, Delivering Good Governance in Local Government 2016'. It was a different piece of work to those normally undertaken by Internal Audit and it was heartening that all four of the Mid Kent Authorities including Ashford were judged as well placed to meet the principles. Areas for improvement for each Authority had been highlighted in the report and there were two areas for Ashford of which Officers were well aware and were already working on (corporate level benchmarking and risk management).

The Chairman thanked Officers for undertaking the review and said that the results appeared pleasing for Ashford. In terms of succession planning, he considered the Council structure was quite lean at senior level, so whilst they had scored quite high in this category, he did urge caution in this regard. The Head of Audit Partnership

said this finding was based on the plans in place at a senior level and for Officer development, which were both strong. The Portfolio Holder said that it was true that the Council was 'lean' at the top, but the cohort and leadership programmes it was undertaking had ensured that succession management plans at a senior level were generally very well planned.

**Resolved:**

- That (i) the final audit report as presented at Appendix 1 to the report be noted.**
- (ii) Officers investigate the opportunities presented by the LG Inform platform in more detail, with a view to incorporating more benchmarking information where possible.**

## **153 Strategic Risk Management**

The Policy and Performance Manager introduced the report which was the first review and update of strategic risk following the Committee's approval of a new approach to identifying and managing risk for the Council in September 2015. The report also included the first update of the Strategic Risk Register since March 2016 when it was endorsed by the Committee. She explained that an original 'long list' of 13 possible themes coming out of the Council's new Corporate Plan had been amalgamated into seven main themes. Each of the seven had its own risk owner and the themes and owners were outlined in the report. She ran through each of the risks and their current gradings, giving the reasons for each.

The report was then opened up to the Committee for discussion and the following responses were given to questions/comments: -

- Along with the Big 8 Projects, the Programme Manager kept a larger register of all projects under the Council's watch. A large part of her work was to assess those projects and ensure that the Council had the ability to finance and resource them and it would only proceed with the projects that could be delivered. An update report on the Corporate Delivery Plan would be submitted to the October Cabinet meeting and this would include a full list of all of the projects. Project Management now sat in the Policy and Performance Manager's team so she advised that there should now be a more co-ordinated approach to project risk.
- The theme of reputational risk was more about external factors which by their very nature were often outside the Council's control. It was a risk that would probably never be graded as a 'green' as there were so many potential smaller risks involved that could change swiftly. From the Council's point of view it was about ensuring resilience.
- The new risk management process was working its way throughout the organisation. Relevant staff had received training and further training would be rolled out shortly.



**Resolved:**

- That (i) the updates and mitigation proposals be noted.**
- (ii) a further six month review period be agreed.**

## **154 External Audit Update Report**

Lisa Robertson introduced the report which included a summary of ongoing audit work at Ashford and some other general points of interest.

**Resolved:**

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

## **155 Report Tracker and Future Meetings**

The Chairman said that he had been advised of an audit to be carried out by the Homes and Community Agency (HCA) over the next month about funding received through the Department of Health's Care and Support Specialised Housing Fund. This funding had been used by the Council at Farrow Court and he would provide feedback on this audit to Committee Members.

**Resolved:**

**That subject to the additions made at the meeting the report be received and noted.**

DS

**Agenda Item No:** 4  
**Report To:** AUDIT COMMITTEE  
**Date:** 6 December 2016  
**Report Title:** DATA PROTECTION UPDATE  
**Report Author:** Rich Clarke



**Summary:** The report sets out progress made since this Committee received the 'weak' assurance review of Data Protection.

Although this report does not record a change to the assurance level, it documents further progress. Steps taken include appointing specialist consultants to bring forward policy and procedure development to enable the Council to address recommendations ahead of substantive appointment of the new Data Protection Officer. .

**Key Decision:** No

**Affected Wards:** All

**Recommendations:** **1. The Audit Committee NOTES the progress made towards implementing recommendations raised in the Data Protection Audit Report brought to this Committee in March 2016.**

**Policy Overview:** Not Applicable

**Financial Implications:** Not Applicable

**Risk Assessment** No

**EIA** No

**Other Implications:** Not Applicable

**Exemptions :**

**Background Papers:** Data Protection Audit Report (presented March 2016)  
Data Protection Update (presented September 2016)

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

## Report Title: Data Protection Update Report

### Purpose of the Report

1. This report follows up from an update presented to Members in September 2016 and describes progress towards implementing recommendations to address a 'weak' audit report finding from earlier this year.
2. For Members convenience, we repeat the background in paragraph 3 from our September report. New information on progress begins at paragraph 4.

### Background

3. The audit report, dated 26 February 2016, was reported to Members in March 2016. For context and a summary of the findings, we reproduce below the original executive summary:

*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 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 help 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.*

4. The table below summarises the position to date on implementing recommendations. We provide further detail and commentary below. We have not included recommendation 8 (on fee handling) as we were satisfied that had been implemented on time

Recommendation Priority Rating Original implementation date	Finding at September 2016 (as reported to Members)	Finding at November 2016
<p><b>R5: Training</b></p> <p><i>Implement training regime and awareness programme</i></p> <p>Priority 2: <b>High</b> Implementation: April 2016</p>	<p><b>Partly implemented.</b></p> <p><b>General training</b> underway and delivered to 91% staff.</p> <p><b>Specific training:</b> For key officers, scheduled mid-October</p>	<p><b>Implemented</b></p> <p>Specific training has now been delivered for key staff.</p>
<p><b>R6: Breach Handling</b></p> <p><i>Formalise and enhance protocols for breach handling</i></p> <p>Priority 2: <b>High</b> Implementation: July 2016</p>	<p><b>Partly implemented</b></p> <p>The new data protection policy sets out what should be done in case of breach. Revised protocols will be established by the DPO when appointed. Currently, legal services are handling instances case-by-case.</p>	<p><b>Implementation to be verified</b></p> <p>Specialist Consultant appointed to accelerate progress on key steps ahead of DPO appointment. Will report in December 2016 on new procedures.</p> <p>The procedures have been used in practice on recent minor breaches. Management are satisfied procedures have operated effectively; we will verify through testing as part of our next follow up round in January 2017.</p>

<b>Recommendation</b> <b>Priority Rating</b> <b>Original implementation date</b>	<b>Finding at September 2016</b> <b>(as reported to Members)</b>	<b>Finding at November 2016</b>
<p><b>R1: Policy &amp; Procedure</b></p> <p><i>Update and apply policies and procedures</i></p> <p>Priority 3: <b>Medium</b> Implementation: June 2016</p>	<p><b>Partly implemented</b></p> <p>The new policy was agreed by Cabinet on 14 July 2016.</p> <p>There is some expanded guidance available on the intranet that will be revised and extended by the DPO.</p>	<p><b>Partly implemented</b></p> <p>The specialist consultant’s brief includes reviewing/updating the policy base to reflect current best practice in advance of DPO appointment. This includes breach management, “top – tip” guidance to staff, and Subject Access Request (SAR) and data sharing policies.</p> <p>Revised implementation January 2017.</p>
<p><b>R2: Organisational Monitoring &amp; Review</b></p> <p><i>Implement monitoring and review regime</i></p> <p>Priority 3: <b>Medium</b> Implementation: June 2016</p>	<p><b>Not implemented</b></p> <p>Reporting framework will be developed by the DPO when appointed. In the meantime, legal services will have awareness of compliance with DPA requirements.</p>	<p><b>Partly implemented</b></p> <p>The policy base is currently under review by specialist consultants who are also preparing compliance monitoring protocol for provide practical guidance. Full roll out will be for the new DPO, interim measures have been taken, including, completion of further training, and a DPA “champion” update report to Management Team on breach handling and other DP matters. So some monitoring and review activity is in place already.</p> <p>Revised implementation: In full, March 2017</p>

<b>Recommendation Priority Rating Original implementation date</b>	<b>Finding at September 2016 (as reported to Members)</b>	<b>Finding at November 2016</b>
<p><b>R9: Record Handling</b></p> <p><i>Review and revise arrangements for data storage and retention to ensure compliance with retention requirements.</i></p> <p>Priority 3: <b>Medium</b> Implementation: June 2016</p>	<p><b>Not implemented</b></p> <p>Initial email review undertaken. A timetable of the steps for ensuring compliance is due before management team in November.</p>	<p><b>Not implemented</b></p> <p>Considered further by management team in November. Detailed retention and handling policy now a corporate project – see para 6 below</p> <p>Revised implementation date August 2017</p>
<p><b>R3 Roles &amp; Responsibilities</b></p> <p><i>Revise job descriptions and supporting arrangements (Deputy and Back Up arrangements)</i></p> <p>Priority 3: <b>Medium</b> Implementation: July 2016</p>	<p>Not part of follow up exercise in this round.</p>	<p><b>Implemented</b></p> <p>Roles and responsibilities clarified in part through creation and approval of DPO job description.</p> <p>The current policy makes it clear that the Chief Executive is ultimately responsible for ensuring information is appropriately protected and that the DPA is complied with.</p>

<b>Recommendation Priority Rating Original implementation date</b>	<b>Finding at September 2016 (as reported to Members)</b>	<b>Finding at November 2016</b>
<p><b>R4: Shared Access</b></p> <p><i>Records accessible to a minimum of 2 authorised staff</i></p> <p>Priority 3: <b>Medium</b> Implementation: July 2016</p>	<p>Not part of follow up exercise in this round.</p>	<p><b>Implemented</b></p> <p>Records are accessible via a shared drive.</p>
<p><b>R7: Centralised Records</b></p> <p><i>Devise and maintain central records / logs of Subject Access Requests and Breaches (potential and notifications)</i></p> <p>Priority 3: <b>Medium</b> Implementation: July 2016</p>	<p>Not part of follow up exercise in this round.</p>	<p><b>Implemented</b></p> <p>Records are accessible via a shared drive.</p>

5. Much of previous discussion around recommendations centred on the creation and filling of the new post of Data Protection Officer. We understand that final interviews for that post are due to take place in early December. This appointment aims to assist longer-term compliance and monitoring strategies. However since autumn management have given added urgency and impetus to full implementation of the recommendations. Specialist consultants have been appointed with a wide-ranging brief to bring forward policy and procedure work to ensure recommendations can be met sooner than would otherwise have been possible. The likely timescales are now reflected in the table above. On this basis management are confident that the assurance rating should move up by the time of the next update report.
6. Recommendation 9 (Record Handling) has a longer implementation date to August 2017. Based on our experience, an effective data retention policy takes some time to compile. A common pitfall is to transfer a policy from elsewhere as a quick fix only to find that it is either overly bureaucratic and burdensome in its detail, or not well suited to the organisation's business and practices. For such a policy to be effective, we recognise the value in taking time in carefully considering the needs of the organisation and so are satisfied that August 2017 represents a reasonable timescale. In the meantime, the legal service will continue to offer advice and guidance on retention and handling of key documents.

## **Risk Assessment**

7. This report is presented for information and update. It has no fresh risk management implications.

## **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. An earlier version of this report was presented to management team in mid-November. .



## **Implications Assessment**

11. Not Applicable

## **Handling**

12. Not Applicable

## **Conclusion**

13. The Council is making further substantive progress on meeting the recommendations including speeding up implementation through appointing a specialist consultant. The progress on appointment of the Data Protection Officer aims to ensure longer-term compliance and monitoring procedures will be embedded. We will continue to follow up recommendations as they fall due and note management's expectation of being able to report on a higher level of assurance in our next follow up report to management, due in February/March 2017.

## **Portfolio Holder's Views**

14. We understand the portfolio holder has been kept informed of progress in implementing recommendations.

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**Agenda Item No:** 5

**Report To:** Audit Committee

**Date of Meeting:** 6<sup>th</sup> December 2016

**Report Title:** Annual Governance Statement – Progress on Remedying Exceptions

**Report Author & Job Title:** Nicholas Clayton-Peck, Senior Policy, Performance and Scrutiny Officer

**Portfolio Holder** Cllr. Shorter  
**Portfolio Holder for:** Finance, Budget & Resources

<b>Summary:</b>	This report updates on the progress made towards the areas of review highlighted by the 2015-2016 Annual Governance Statement
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**Key Decision:** NO

**Significantly Affected Wards:** N/A

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

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

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

**Financial Implications:** None

**Legal Implications** None

**Equalities Impact Assessment** N/A

**Other Material Implications:** None

**Exempt from Publication:** NO

**Contact:** Nicholas.Clayton-Peck@ashford.gov.uk (01233 330208)

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

### **Introduction and Background**

1. Each year the council must produce and approve an Annual Governance Statement (AGS). AGS are designed to summarise for Members and residents the council's approach to governance and show how the council fulfils the principles for good corporate governance in the public sector. The AGS needs to draw conclusions, based on evidence throughout the past year, about the effectiveness of the council's arrangements.
2. The 2015-2016 Annual Governance Statement (AGS) was agreed by the July 2016 meeting of the Audit Committee and identified two areas for continued work and review -
  - a. Embedding the council's new Performance Dashboard into the quarterly performance monitoring regime.
  - b. Completion of work to revise the council's strategic risk management procedures.
3. This report updates on the progress made towards these areas of review highlighted by the 2015-2016 Annual Governance Statement. This follows the first such update to the September 2016 meeting of the committee.

### **Purpose of this report**

4. To update on the progress made towards the areas of review highlighted by the 2015-2016 Annual Governance Statement.

### **Progress to Date**

#### **Embedding the council's new Performance Dashboard into the quarterly performance monitoring regime**

5. In December 2015 the Council agreed a new Corporate Plan - "The Five Year Corporate Plan – for Aspiration, Action and Achievement".
6. This also provided an opportunity to refresh the way in which performance against this new Corporate Plan (and its priority areas) was monitored, presented and engaged with by officers and members.
7. Whilst this approach is naturally an evolving one, the aim is for the Performance Dashboard to inform the work of both officers and Members. As part of the Council's wider governance arrangements, such performance

information is used to reflect on the organisation's approach – leading to doing things differently where needed in order to offer efficient services and effective outcomes.

8. Cabinet and Overview & Scrutiny Committee received the first reports from this Dashboard at their September meetings, whilst the Audit Committee received a presentation of the system in the same month. A live version of the website was made available at the Overview and Scrutiny meeting in order to facilitate discussion, scrutiny and additional analysis on the information provided.
9. This quarterly cycle is embedded into both the Cabinet and Overview & Scrutiny forward work plans. It should also be noted that this is the first version of the Dashboard, with an emphasis on making sure the core data, components and insight begin to work as a management tool. As such, analysis is constantly being added as the latest data is added to the system and interventions are made. Alongside a user group which will meet over the next year, feedback from more regular use of the site, and further integration of service planning and programme management data will provide further developments (and a deepening) of the overall performance picture.

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

10. A report proposing an update to the way the council evaluates risks, alongside improvements in their monitoring, management and review, was considered by the Audit Committee in September 2015.
11. Since then, an initial set of seven strategic risks was presented and endorsed by the Committee in April 2016, with an update on these risks presented to the September 2016 Audit Committee.
12. Complementary work has been taken forward by a cohort of managers from across the authority, supplemented by a round of workshops with service managers, to compile information about service risks.
13. These corporate risk registers complement the service planning process, and will be reported to the Overview and Scrutiny Budget Task-group as part of pre-Budget scrutiny for 2017/18. They now provide the council with an improved corporate awareness of service-based risks for the year ahead, and the mitigation controls planned.
14. Strategic and service risks have also been uploaded onto the council's new risk management software, alongside project and programme management information. This electronic system will allow for easier monitoring and reporting on the ongoing trends for all of these areas going forward.

## Conclusion and Next Steps

15. Both performance and risk management form key components of the council's governance arrangements. As such, they are not merely one-off exercises but ongoing practice. Whilst the design and launch of the council's new performance dashboard does signal a new emphasis in this area, further and ongoing use of the tool by officers and Members, alongside further rounds of reporting, will fully demonstrate that the new approach is suitably embedded within the organisation.
16. With the outputs of the Performance Dashboard having been considered by the Cabinet and Overview & Scrutiny Committee for two straight quarters, it is considered that the governance weakness identified by the Annual Governance Statement – namely the embedding of the new performance system into the wider performance regime – has now been **completed**.
17. On risk, the outputs of the cohort's work to support the formation of service risk registers in support of the service planning process are being embedded and will be scrutinised as part of the Budget scrutiny process during December 2016. Accordingly, a **further update** of progress in this area will be reported back to the Committee in March 2017.

## Contact and Email

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# The Annual Audit Letter for Ashford Borough Council

**Year ended 31 March 2016**

October 2016

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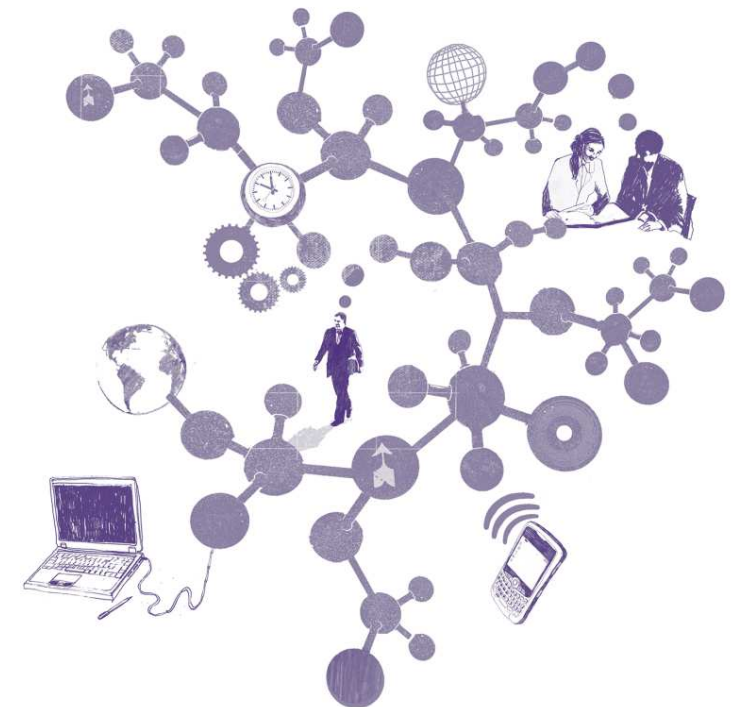
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ashford Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 28 July 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 28 July 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 28 July 2016.

### **Certificate**

We certified that we had completed the audit of the accounts of Ashford Borough Council in accordance with the requirements of the Code on 20 September 2016.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**



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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,169,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors' remuneration.

We set a lower threshold of £1,459,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts – Ashford Borough Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property plant and equipment</b></p> <p>The Council's property, plant and equipment, including its housing stock, represents 90% of its total assets. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets annually.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• Evaluation how management satisfied themselves that these were not materially different to current value.</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 29% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p><b>We did not identify any issues to report</b></p>

# Audit of the accounts – Ashford Borough Council

Risks identified in our audit plan	How we responded to the risk
<p><b>Operating expenditure</b> The Council reported £13,058,000 creditors as at 31 March 2016. Of this, 51% were sundry creditors.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• Documented our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• Cut off testing to assess whether transactions are recorded in the correct period</li> <li>• Substantive testing of operating expenditure payments</li> <li>• Substantive testing of year end payable balances</li> <li>• Review of accruals</li> </ul> <p><b>We did not identify any issues to report .</b></p>
<p><b>Employee Remuneration</b> The Council's expenditure on employees, represents 19% of its total expenditure.</p>	<p>As part of our audit work we have undertaken:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• trend analysis and risk identification for monthly payroll costs</li> <li>• substantive testing f payroll payments</li> </ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 July 2016, in advance of the 30 September 2016 national deadline.

The Council made the accounts available for audit in line with the agreed timetable which was the end of May 2016, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. This enabled us to issue the audit opinion two months before the statutory deadline which is a great achievement.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Audit Committee on 28 July 2016.

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

- Our testing identified a material amendment to disclosures within the balance sheet. A £1.7 million payment was incorrectly included in creditors, overstating creditors and understating cash. This has been corrected.
- Our audit identified a number of presentational and disclosure adjustments to the financial statements.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have not been required to apply these for the Council in 2015/16.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings. We recommended that the Council should consider whether there are any gaps in skills and capacity and how these will be addressed, if they are to maintain their commercial ambitions.

Management agreed and noted that interim arrangements have been put in place and are being monitored.

## Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Commercial development</b> 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>We reviewed 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>In line with its Corporate Plan, the Council is increasingly involved in a number of commercial developments. Historically, although these were managed appropriately by the team involved, these were largely led by individuals with limited oversight by management team of the full programme. In January 2016, the Council introduced a programme manager and has developed a clear process for overall project management information to be monitored, recently agreed at the Director away day. This includes review of projects by management team, project initiation and evaluation documents and consideration of resources required from across the Council to support the projects. The introduction of this aims to strengthen corporate processes. The former Chief Executive had significant experience in commercial developments, particularly in valuation and property surveying and a significant focus of his time was in this area. As part of the overall programme review, the Council need to consider whether there are any gaps in skills and capacity if they are to maintain their commercial ambitions. The next steps for the Council are to embed their project management approach, including project management training.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>
<p><b>Changes to the management team</b> 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>We reviewed the Council's succession plans to establish how the Council is identifying, managing and monitoring the impact of changes to the management team.</p>	<p>The Council has a clear approach to succession planning, with proposals agreed at Cabinet meetings, It has a leadership and management development programme across Heads of Services in the Council. The majority of the changes in senior managers have been expected and transition arrangements well planned. These changes have allowed for the Council to reassess its directorate structure, alongside its member portfolios. Changes have been well communicated throughout teams with the introduction of regular Chief Executive walkabouts which include presentation of key Council issues and developments.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

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# Working with the Council/Authority

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit two months before the deadline, in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment. We worked with you to streamline your processes, making particular comments over fixed asset documentation and accruals processes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted that as part of the overall programme review for commercial projects, the Council need to consider whether there are any gaps in skills and capacity if they are to maintain their commercial ambitions. The next steps for the Council are to embed their project management approach, including project management training.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included: Knowing the Ropes – Audit Committee: Effectiveness Review; Making devolution work; Reforging local government; and Building a successful joint venture.

Providing training – we provided your teams with training on financial accounts and annual reporting. The courses were attended by your finance officers.

Providing information – we provided you with Health and Wellbeing data for the Ashford providing a socio-economy context, compared across the country.

We will also continue to work with you and support you over the next financial year.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

## Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Ashford BC	60,311	60,311	80,415
Audit of subsidiary company "A Better Choice for Property Limited (excl VAT)	10,000	**tbc	3,000
Audit of subsidiary company "A Better Choice for Building Consultancy Limited (excl VAT)	6,000	**tbc	6,500
Housing Benefit Grant Certification	8,112	*tbc	14,200
<b>Total fees (excluding VAT)</b>	<b>84,423</b>	<b>tbc</b>	<b>104,115</b>

The proposed fees Council audit and Grant Certification fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

\* 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'. This work is due to be completed by 30 November deadline and we will confirm the final fee in our Grant Certification report to Committee in December 2016.

\*\* Our audit of the Local Authority owned trading companies is scheduled for August 2016 and we will confirm the final fee in the Audit Findings Report to the directors of the trading companies on completion.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of housing pooling capital receipts return	2,000

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016





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**Agenda Item No:** 7  
**Report To:** AUDIT COMMITTEE  
**Date:** 6 DECEMBER 2016  
**Report Title:** INTERIM INTERNAL AUDIT REPORT 2016/17  
**Report Author:** Rich Clarke



<b>Summary:</b>	The report sets out progress against the agreed audit plan for the first half of 2016/17, including detail on audit findings and commentary on wider issues on audit and the service.
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**Key Decision:** No

**Affected Wards:** All

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

**Policy Overview:** Not Applicable

**Financial Implications:** Not Applicable

**Risk Assessment** No

**Equalities Impact Assessment** No

**Other Implications:** Not Applicable

**Exemptions :**

**Background Papers:** Interim Internal Audit Report 2016/17

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

## **Report Title: Interim Internal Audit Report 2016/17**

### **Purpose of the Report**

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

### **Background**

2. At the March 2016 meeting of this Committee Members gave outline approval for our strategic plan and specific approval to our 2016/17 audit plan.
3. The report therefore takes Members through our work assessing the Council's internal control, corporate governance and risk management and includes sections describing our work following up recommendations and considering the Council's counter fraud arrangements. The report also includes commentary on the progress of the audit service more generally.

### **Risk Assessment**

4. Not applicable.

### **Equalities Impact Assessment**

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

### **Other Options Considered**

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

## **Consultation**

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

## **Implications Assessment**

8. Not Applicable

## **Handling**

9. Not Applicable

## **Conclusion**

10. The report presents for Member comment and enquiry the results and progress of the audit service against agreed plans at an interim point in the year. Our full report and findings will come to Members as part of our Annual Report that we plan to complete by June 2017 to inform the Council's Annual Governance Statement.

## **Portfolio Holder's Views**

11. The relevant Portfolio Holder, Cllr Neil Shorter, is a member of the Audit Committee. We also maintain quarterly meetings to update on audit progress, and comments from those meetings inform our reports.

**Contact:** Rich Clarke Tel: (01233) 330442

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**MID KENT AUDIT**

# **Interim Internal Audit & Assurance Report**

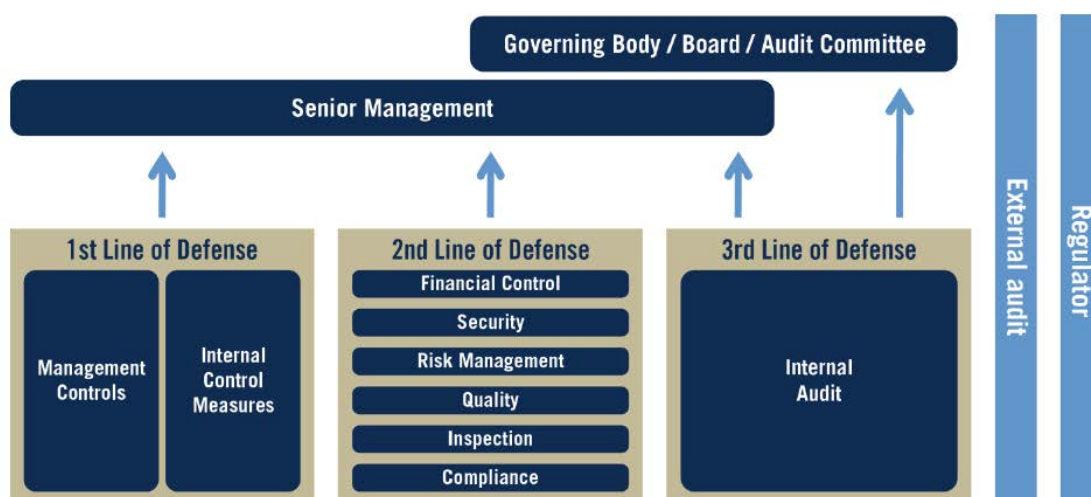
**December 2016**

**Ashford Borough Council**



## Introduction

1. Internal audit is an objective and independent assurance and consulting service designed to enhance and protect the Council’s values and priorities. It helps the Council by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
2. Regulation 5 of the Accounts and Audit Regulations 2015 shows the authorities must keep an internal audit service. That service must “*evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”.
3. We base our work on the [Public Sector Internal Audit Standards](#) [the Standards]. These stem from, and extend, the Institute of Internal Audit’s Global Standards, Code of Ethics and International Professional Practices Framework. This means internal audit at the Council conforms to the same demands present across similar services throughout the world in public, private and voluntary organisations.
4. The Standards demand an annual opinion from the Chief Audit Executive (the Head of Audit Partnership fulfils this role at the Council). The Opinion considers internal control, corporate governance and risk management. It is a key part of the overall assurance Members and Officers of the Council draw on when evaluating governance. The diagram below<sup>1</sup> shows internal audit’s position alongside other sources of assurance:



5. This report updates Members on progress and findings so far as we complete the Audit Plan approved by this Committee in March 2016.

<sup>1</sup> Taken from the Institute of Internal Audit’s Professional Practices Framework. Like all IIA publications intended for a global audience, it uses US spelling.

## Internal Control

6. Internal control is how the Council ensures achievement of its objectives. In particular, internal control achieves and displays effectiveness and efficiency, reliable financial reporting and compliance with law, rules and policies. It incorporates both financial and non-financial aspects.
7. We gather evidence to support this part of the Opinion principally through completing the reviews set out in our audit plan. Besides considering the findings of each review individually we must assess whether there are any overall messages we need to report to Members and Senior Management.
8. Our work so far this year has continued the Council's generally good record in displaying a sound control environment. We are grateful for the support of officers and Members in taking action on the findings and implementing recommendations to improve the quality of the Council's control environment.
9. On progress, since at least 2005 the Audit Partnership completed a chunk of one year's audit plan in the following year. To an extent this is a natural consequence of a service that is often (but not always) retrospective, it is clearly beneficial to start work early on current years plan. We have reduced that overspill in recent years but still around a third of our time in 2016/17 has been spent concluding the 2015/16 plan.
10. Seeking to resolve this issue, rather than just chip away year to year, potentially required a shorter plan or additional resource, neither of which are attractive options. However, in 2016/17 we completed an extensive cost review, eliminating under-used subscriptions and maximising income from providing activities such as training. Without incurring additional cost, we have been able to put out to tender a block of work for 2016/17 that I am confident will enable timely plan completion in full.
11. The firms we have contact to tender for the work are only those that already have a track record of providing local authority audit services. We have also made clear that the contractor will work within our control and supervisory environment and produce output in our recognisable format and style.

## Audit Plan Progress

Type of work	Plan Days	To Oct 16	To Oct %	Forecast Y/E	Forecast %
Assurance Projects	317	84	27%	320	101%
Concluding 15/16	0	77	n/a	77	n/a
Other Work	78	59	76%	90	115%
<b>Total (excl 15/16)</b>	<b>395</b>	<b>143</b>	<b>36%</b>	<b>410</b>	<b>104%</b>

## Audit Review Findings so far

12. The table below summarises audit project findings and outturn up to the date of this report. Where there are material matters finished between report issue and committee meeting we will provide a verbal update. (\* = days split between partners, ABC only shown).

	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
<b>2015/16 Assurance Projects Completed After 1 April 2016</b>							
	Operational	Training & Development	15	11	May-16	<b>STRONG</b>	Reported to Members Jun-16
	Operational	ICT Service Desk	15	4	May-16	<b>SOUND</b>	Reported to Members Jun-16
	Governance	Corporate Projects Review	10	4	Jun-16	<b>N/A</b>	Reported to Members Jun-16
	Governance	Good Governance Framework	5*	4*	Jul-16	<b>N/A</b>	Reported to Members Sep-16
I	Finance	Procurement	15	23	Jul-16	<b>SOUND</b>	
II	Operational	Tourism	12	19	Jul-16	<b>N/A</b>	
III	Operational	Member Training & Induction	15	12	Jul-16	<b>SOUND</b>	
<b>Planned 2016/17 Assurance Projects Completed to Date</b>							
IV	Finance	Council Tax Billing	10	10	Sep-16	<b>STRONG</b>	
V	Operational	Street Cleansing	15	19	Oct-16	<b>SOUND</b>	
VI	Operational	Housing Maintenance	15	10	Oct-16	<b>N/A</b>	
<b>Planned 2016/17 Assurance Projects In Progress</b>							
	Operational	IT Development	15	14			Draft report stage
	Governance	Public Sector Equality Duty	15	10			Fieldwork stage
	Operational	Elections & Registration	15	7			Fieldwork stage
	Operational	Customer Services	15	3			Fieldwork stage
	Finance	Payroll	10	2			Fieldwork stage
	Operational	Appraisals	15	2			Fieldwork stage
	Governance	Members' Allowances	15	2			Planning stage
	Operational	Development Management	15	1			Planning stage



	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
	Operational	Arts & Culture	15	1			Planning stage
	Operational	HR Policy Compliance	15	1			Planning stage
	Governance	Arms Length Companies	15	1			Planning stage
	Finance	Business Rates	10	1			Planning stage
	Operational	Corporate Communications	15	1			Planning stage
<b>Planned 2016/17 Assurance Projects Yet To Begin</b>							
	Finance	General Ledger	10		Contractor		
	Finance	Accounts Payable	15		Contractor		
	Finance	Budgetary Control	15		Contractor		
	Finance	Bank Reconciliations	10		Contractor		
	Operational	Property Management	12		Contractor		
	Governance	Counter Fraud Risk Assessment	10				Delayed to later in 16/17 following recruitment of new Counter Fraud Manager
	Governance	Business Continuity	5*				Originally scheduled as a joint review with Swale, scope to be revisited and expanded following decision to end the shared arrangement with SBC.
	Governance	ICT Controls & Access	15				
	Governance	Corporate Governance	10				
<b>Planned 2016/17 Assurance Projects Postponed or Cancelled</b>							
	Operational	Housing Services	10				Scope merged within expanded consultancy review of Housing maintenance (see VI,above))

**I: Procurement**

- 13. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with procurement.
- 14. The Council’s Contract Standing Orders (CSOs) and Procurement Guidance are the overarching policy that sets out how contracts and services should be procured. Our testing identified minor instances of non-compliance which did not fundamentally thwart the CSOs objectives. The most notable of these suggest a need for the Council to improve processes to enable demonstration of compliance with the CSOs, and adopt a more proactive approach for the recording and monitoring of exceptions to the CSOs (waivers).
- 15. We confirmed through testing that the tendering process for the Council is working in accordance with procedures, and that the process is appropriately supported by the Procurement team. The Council does not currently operate an e-procurement system (although are currently exploring the options to implement one) which means the receiving and opening of bids is a manual process. Weaknesses in the process were identified through testing which we feel will be addressed if the Council reviewed its procedures and clarified officer responsibilities in the process.

**II: Tourism**

- 16. We designed this review to look at the partnerships and relationships the Tourism team has with attractions within the Borough. The team has only limited ability to achieve its objectives direct and so relies on partners, making those relationships key.
- 17. We found strong links with these businesses with continuous communication by forums, memberships of groups, reviews and other channels. The Tourism team manage links consistently, keeping up with current activities and projects in the local area.
- 18. We looked also at how the Economic Development Team works with partners in similar businesses. We found both teams work well together and avoid duplication.

<b>Notable practice identified</b>
<ul style="list-style-type: none"> <li>• Good working relationships with local Tourism businesses</li> <li>• Good working relationships with Economic Development team</li> <li>• Strong knowledge within Tourism team</li> </ul>
<b>Areas of improvement to consider</b>
<ul style="list-style-type: none"> <li>• Recognise, document and devise mitigation strategies to address the risk of personnel change within the tourism and economic development teams.</li> <li>• Verifying key data on visitor numbers via periodic checks.</li> </ul>

### III: Member Training & Induction

19. We conclude based on our audit work that the Council has **Sound** controls in place to train and induct elected Members.
20. We found that the Member Training Panel provides a sound overview of Members' training needs including one-off requests. Our review of training records found that 84% of Members undertook some training in 2015/16, including more than 90% of new Members. The records also showed good attendance rate and take up. Statutory role Committees (Planning and Licensing) have sound mandatory training regimes and appropriate, if not universally attended, refresher sessions. Beyond specific training, the Council offers helpful and comprehensive updates.
21. However, we identified that unlike with officers, the Member training needs analysis occurs once per administration. A move to consider needs yearly would bring many of the benefits already open to Officers plus help reduce risks of missing regulatory changes.

### IV: Council Tax Billing

22. We conclude based on our audit work that the Revenues and Benefits department has **Strong** controls in place to manage its risks and support its objectives in relation to Council Tax - Billing.
23. Our review found only minor changes to the Council Tax system since we reviewed it in April 2015, meaning control design remains robust.
24. There are established processes for billing which have been enhanced with the increased use of Victoria Forms to automate the moving out process. Our testing identified a pro-active move towards e-billing, with customer's being automatically opted in when they complete any of the Council's online forms and provide their email address. This has led to an increase in the number of e-bills being sent from 40 in 2015/16 to 1113 in 2016/17.
25. However the monitoring of the Virtual Mailroom (VM) contract needs improvement. Officers who monitor the reports provided by VM were unaware of the timescales in which they had to be provided and adequate monitoring records were not being kept. This means that the performance of VM is not being measured against the standards in the contract.

## **V: Street Cleansing (Ashford)**

26. We conclude based on our audit work that there are **Sound** controls in operation to support the monitoring of the street cleansing element of the Joint Waste Contract.
27. We found good working relationships between the Council and contractor. This relationship includes regular performance monitoring and proper application of contractual performance penalties. We also found sound controls over payments.
28. Although we found sound monitoring arrangements, the real-time monitoring solution specified in the contract (Springboard) is not operational and the contractor has provided no implementation date. The interim approach provides reasonable assurance on cleanliness standards, but places additional demands on the monitoring team. The demand increases risks to capacity and resilience the service should address to avoid infringing on tasks such as environmental enforcement.

## **VI: Housing Maintenance (Ashford)**

29. The purpose of this review was to identify and assess the key controls currently employed by the Service to manage the associated risks around Housing Maintenance. The service is in the process of reviewing how it maintains and repairs its housing stock, and so this audit was designed to complement that review and assist the service as it considers changing and updating its processes. As such, we have not issued this work with an overall level of assurance.
30. This report details the key controls identified for each key stage within the Housing Maintenance process. We have assessed each of the controls in place and identified the key controls as those which we feel provide the greatest level of control to manage the risks.
31. We conclude as a result of our work that the controls currently operating enable the Council to comply with its obligations as a landlord, in accordance with the Landlord and Tenants Act and the Right to Repair legislation. As the service moves to review and update its processes it will be necessary to ensure that any new service delivery model gives consideration as to how these obligations will continue to be fulfilled.
32. The remainder of this report details the key controls assessed as part of a process mapping exercise, and the associated risks. The service should have regard to these key controls as they consider any re-design of process to ensure that the processes continue to operate in accordance with statutory requirements and provide assurance that associated risks are being managed.

## Audit Recommendations

- 33. Our approach to recommendations means at the end of each report we agree with management an action in response and a date for implementation. We then follow up recommendations individually when they fall due, compiling results together each quarter in a report to Senior Management.
- 34. Where we originally reported a **Weak** assurance rating, we also revisit this rating each quarter. Note that we have issued no **Poor** assurance rating reports at the Council. We consider whether management has made enough progress through fulfilling recommendations to resolve concerns behind the adverse assurance rating. When we believe management have made enough progress to materially minimise the risk, we alter our assurance rating to **Sound**. However we continue following up outstanding recommendations until completed.
- 35. During this period we have issued no new reports at **Weak** level, nor any high priority recommendations. **Weak** rated reports on *Safeguarding* and *Data Protection* issued as part of the 2015/16 plan fulfilment have had progress reported separately to Members in line with the Council’s protocol.
- 36. The table below summarises all recommendations raised in this period, so excludes reports that did not raise recommendations. We raised no **critical** rated recommendations. We are pleased to note all recommendations raised by audit were accepted by management and we will track their implementation as they fall due.

Project and assurance rating	High	Med	Low	Advisory	Implementation Period
Procurement: <b>So</b>	0	4	6	1	Dec 16 – Mar 17
Member Training: <b>So</b>	0	3	1	0	Jul – Dec 16
Council Tax Billing: <b>Str</b>	0	0	2	0	Jan 17
Street Cleansing: <b>So</b>	0	2	0	2	Apr 17
<b>Totals</b>	<b>0</b>	<b>9</b>	<b>9</b>	<b>3</b>	

37. Our most recent reporting considered recommendations due before 1 October 2016. We set out in the table below progress made and verified up to that point.

Project and original assurance rating (W/So/Str)	Agreed Actions	Falling due before 1/10/16	Actions Completed	Outstanding Actions past due date <sup>2</sup>	Actions Not Yet Due
<b>Projects with actions completed during 2016/17</b>					
Safeguarding: <b>W</b>	6	6	6	0	0
Banking Arrangements	5	5	5	0	0
Housing Rents: <b>So</b>	1	1	1	0	0
Creditors: <b>So</b>	3	3	3	0	0
Income System: <b>Str</b>	2	2	2	0	0
<b>Projects with actions to carry forward into the rest of 2016/17 and beyond</b>					
Data Protection: <b>W</b>	9	4	4	0	5
Member Training: <b>So</b>	4	1	1	0	3
Procurement: <b>So</b>	10	0	0	0	10
Council Tax Billing: <b>Str</b>	2	0	0	0	2
Street Cleansing: <b>So</b>	2	0	0	0	2
<b>TOTAL</b>	<b>44</b>	<b>22</b>	<b>22</b>	<b>0</b>	<b>22</b>
		<b>50%</b>	<b>50%</b>	<b>0%</b>	<b>50%</b>

38. Note the table above excludes reviews which did not feature recommendations for action (such as the *Good Governance* review). Note that we do not follow up on advisory recommendations.
39. We reported previously to Members in our 2015/16 annual report that officers had made sufficient progress on the *Safeguarding* review to revise the assurance rating from **weak** to **sound**. During 2016/17 officers continued progress and have now implemented all recommendations.
40. That revision left *Data Protection* as the only current review carrying a **weak** assurance rating. A separate report on progress towards implementing *Data Protection* recommendations is on the agenda of this meeting.

<sup>2</sup> Including occasions where we have agreed to defer due dates after proposal from the service. We only agree to a deferral after considering the continuing risk to the authority of non-implementation, which will include assessment of any interim measures in place.

## **Corporate Governance**

42. Corporate governance is the system of rules and practices that direct and control the Council.
43. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
44. During the year we also undertook a specific review examining the Council's position for compliance with the new Code of Corporate Governance published by CIPFA/SOLACE in April 2016. We report the main conclusions of that review earlier in this report.
45. Internal audit is one route for members of staff and others to raise concerns under the Council's whistleblowing policy. We received one notification through the policy in the first half of 2016/17 but, after initial investigation and correspondence with the individual, did not proceed further.

## **Risk Management**

46. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
47. During 2016/17 we have continued to work with the Council to adapt and improve its risk management arrangements as set out in the revised framework presented to this Committee in September 2015. Our work has include facilitating risk workshops with senior officers to identify risks and providing additional training and guidance.
48. The revised risk register and results of the approach are reported regularly to Members, including most recently to this Committee in September 2016. We will also use the Council's identified risks to inform our audit planning.

# Mid Kent Audit Service Update

## Team Update

49. In the first half of 2016/17 we bade farewell to one of our trainee auditors who left the partnership to change career into healthcare. However, following a full recruitment exercise drawing 37 applications we appointed Louise Taylor, previously our team administrator, to the Trainee position. Louise originally joined the team as part time administrator in November 2015 and has integrated well and shown great enthusiasm for continuing her career in audit. She will now work full-time as a trainee, beginning professional qualifications with the Institute of Internal Audit.
50. As a result, the Team Administrator role has fallen vacant. Previously we could not join in the Council's apprentice scheme as none of the roles covered audit responsibilities; however we can shape our administrator role to meet the scheme. Early in November Shahbaz Rehman joined as our audit administrator and will work with us as an apprentice while completing a qualification at Mid Kent College.

## Quality Assurance and Improvement

51. We continue to develop our Quality and Improvement Plan including, for 2016/17 a revision and refresh to our audit manual. See appendix A for an extract, summarising our audit approach. Our manual and approach is now on a par, or even ahead of, leading practice in the public sector. Leading on from this CIPFA invited the Head of Audit Partnership to prepare and present national training to around 50 other local authority audit services on Insights into Internal Audit Professional Standards.
52. We have also kept ahead of changes to Audit Standards through the role the Head of Audit Partnership has as Local Government Representative on the Internal Audit Standards Advisory Board (IASAB). The IASAB is the body that recommends changes applicable across the UK public sector. The forthcoming changes to Standards include those consulted by the Global Institute for Internal Audit in autumn 2016. Although the revisions will not apply in the public sector until 1 April 2017 (subject to consultation and agreement with devolved governments) we already show conformance. This includes with Standards 1320 and 2060 which the IIA has adapted to extend and clarify matters for reporting to Members.



*Standard 1320: Reporting on the Quality Assurance and Improvement Plan*

<b>Reporting Requirement</b>	<b>Comments</b>
Scope and frequency of internal and external assessments	We gained an external quality assessment considering conformance across the Public Sector Internal Audit Standards in April 2015. We will seek another before April 2020. We undertake a full internal assessment against the Standards each year.
Conclusions of assessors	The IIA decided we fully conform with standards. Our self-assessments since conclude we have upheld conformance.
Corrective action plans	Not applicable.
Qualifications and independence of assessors	The IIA team all held suitable professional qualifications and experience. They were also fully independent of the audit service and the authorities.

*Standard 2060: Reporting To The Board*

<b>Reporting Requirement</b>	<b>Comments</b>
The Audit Charter	Reported in March 2016. We will consider the need for a revision as part of our 2017/18 planning in March 2017.
Independence of internal audit	We can confirm the continued utility of independence safeguards described in the Charter. The internal audit service works independently and reports free from any inappropriate pressure or influence from management.
Audit Plan and Progress	Reported earlier in this document.
Resource requirements	Reported in our 2016/17 plan in March 2016. We continue to receive strong support from the authorities who provide sufficient resources to complete plans agreed by Members.
Results of audit	Reported earlier in this document.
Conformance with the Standards	As above, we work in full conformance with the Standards.
Risks accepted by management that may be unacceptable to the Council	We are aware of no risks currently accepted by management that we feel would be unacceptable to Members. See the section in this report on Risk Management for information on the significant risks recognised by management.

## Performance

53. Aside from progress against our audit plan we report on several specific performance measures designed to oversee the quality of audit service we deliver to partner authorities. The Audit Partnership Board (with Ben Lockwood, Head of Finance and s151 Officer representing Ashford) considers these measures at each quarterly meeting.
54. The table below shows our most recent outturn on these performance measures. Note that data is for performance across the partnership rather than council specific (but there are no significant variations from authority to authority).

Measure	2015/16 Outturn	2016/17 Target	Q2 16/17 Outturn
Cost per audit day	On target	n/a	5% ahead of target
% projects completed within budgeted days	60%	75%	75%
% of chargeable days	63%	70%	74%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within deadlines	76%	80%	88%
% draft reports within ten days of fieldwork end	68%	80%	81%
Satisfaction with assurance (score /4)	3.2	3.4	3.7
Final reports presented within 5 days of closing	92%	90%	93%
Satisfaction with auditor conduct (score /4)	3.5	3.75	3.86
Recommendations implemented as agreed	98%	95%	89%
Exam success	100%	75%	75%
Satisfaction with auditor skill (score /4)	3.2	3.4	3.7

55. We continue on a positive trend for performance across the measures, meeting all but one target in Quarter 2. Notably, this continues the strong upward performance in completing projects to budget (from 18% in 2013/14, rising to 47% in 2014/15 and now at 75%) and to agreed deadlines (up from 41% in 2014/15 to 88% now). We have achieved this result while keeping costs below target per audit day, enhancing audit quality and improving satisfaction scores measured through our post-audit surveys.
56. As always, we could not have achieved this performance without the dedicated expert support of the entire audit team, and the management of Mid Kent Audit offer profound thanks for their skill and hard work. We also thank the Members and Officers who continue to inform, support and guide our work.

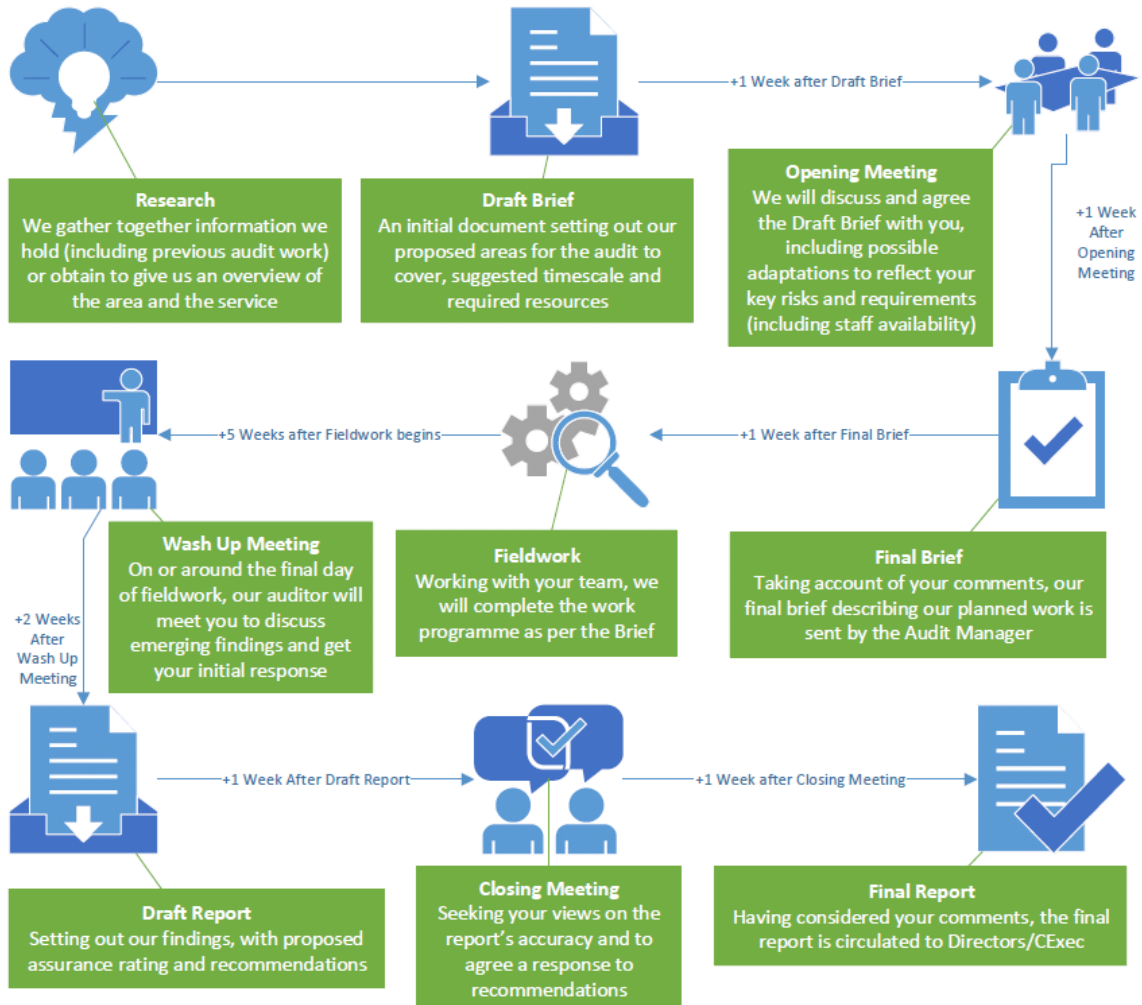
# Mid Kent Audit

Ashford: April 2016

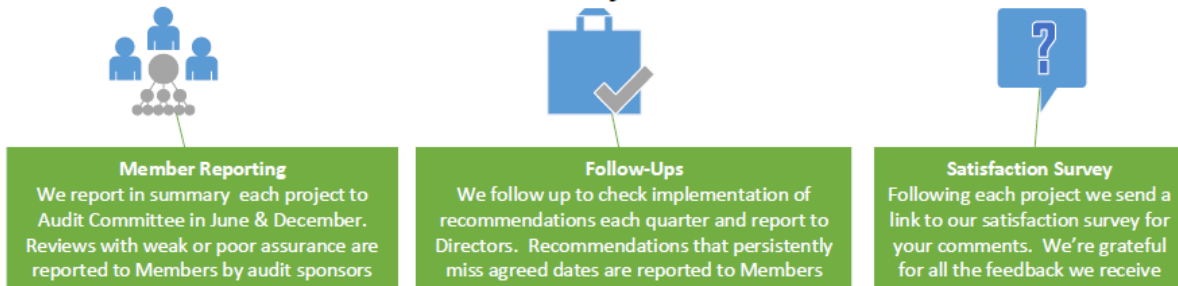
## Audit Project Process Map

There is no single set audit process or timeline; in reality we can and do adapt to circumstances as suits the service and its objectives. However, we hope it is helpful to set out a 'typical' approach to give you an idea of the key stages and possible timings, especially if you want to link in discussion of findings to your service management meetings. This 'typical' approach runs from brief to final report in 12 weeks.

We will discuss and agree a detailed timeline with you when finalising the audit brief.



## Post Audit Project Processes



**Agenda Item No:** 8  
**Report To:** Audit Committee  
**Date of Meeting:** 6 December 2016



**Report Title:** **Procurement and Appointment of External Auditors – Appointment of a ‘Specified Person’**  
**Report Author & Job Title:** Ben Lockwood – Head of Finance  
Rich Clarke - Head of Audit Partnership  
**Portfolio Holder** Cllr Shorter Portfolio Holder for Finance & Budget, Resource  
**Portfolio Holder for:** Management and Procurement

**Summary:**

This is the fourth report to the committee updating them on the emerging picture for the procurement of an external auditor for the 2018/19 financial statements.

The Department for Communities and Local Government has appointed Public Sector Audit Appointments Ltd (PSAA – a wholly owned LGA company) to act as a ‘specified person’ to procure external auditors on behalf of authorities. Currently there is no other ‘Specified Body.’

PSAA have published a prospectus to Authorities outlining their proposed approach and have invited the council to opt into the national scheme for auditor appointments. This is the preferred route to procure the Councils next external Auditor.

**Key Decision:** NO

**Significantly Affected Wards:** N/A

**Recommendations:** **The Audit Committee is ask to recommend to Council:-**

- I. That they accept the Public Sector Audit Appointments’ (PSAA) invitation to opt in to the sector led option for appointment of external auditors for five financial years starting 1 April 2018.**
- II. That they approve the Head of Finance to liaise with PSAA and respond to its consultations on specific proposals as they come forward.**

**Policy Overview:** The Councils contract with its External Auditor is due to expire, and it will need to appoint a new auditor before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and deliver their first opinion in July 2019.

If the Council is minded to accept the PSAA invitation then

Ashford BC will not be a party to the contract for the new external auditor and therefore the procurement process and selection of successful bidder will be completed by PSAA.

**Financial Implications:**

The Council must appoint an external auditor. Opting in to the national arrangement will allow PSAA to undertake a national procurement exercise that may result in lower fees through increased buying power than the Council could gain by local procurement.

Opting in also avoids incurring the costs of creating and preserving a local auditor panel.

**Legal Implications**

Section 7 of the Local Audit and Accountability Act 2014 demands a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on selecting and appointing a local auditor. Section 8 provides that where a relevant authority is a local authority employs executive arrangements, appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

Section 12 provides for the failure to appoint a local auditor. The authority must immediately tell the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor for the authority.

Section 17 gives the Secretary of State the power to regulate for an 'appointing person'. The Secretary of State exercised this power in the Local Audit (Appointing Person) Regulations 2015 (SI 192). These give the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State named PSAA as the appointing person.

**Equalities Impact Assessment**

Not Required - this deals with the process for the appointment of an auditor and does not impact upon any groups within society.

**Exempt from Publication:**

**NO**

**Contact:**

Ben Lockwood  
01233 330540

## Report Title: Procurement and Appointment of External Auditors – Appointment of a ‘Specified Person’

### Introduction and Background

1. This is the fourth report to the Audit Committee on this subject. The Council’s contract with its External Auditor is due to expire, and it will need to appoint a new auditor before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and deliver their first opinion in July 2019. Under the current regulations the Council has 3 routes to procure an external auditor and at its meeting on the 16<sup>th</sup> June the Committee expressed a preference for this procurement the appointment of a ‘Specified Person’ who would have the authority to make auditor appointment decisions on behalf of those authorities who opt-in to those arrangements.
2. Since that meeting the Secretary of State has authorised Public Sector Audit Appointments Ltd (PSAA – a wholly owned LGA company) to act as a ‘specified person’ to procure external auditors on behalf of authorities. PSAA have published a prospectus (attached at **Appendix A**) setting out their intentions for the procurement exercise and have updated their Frequently Asked Questions guidance on the process for appointing a new external auditor and their role within that process which is attached at **Appendix B**.
3. PSAA have now written to authorities seeking their firm commitment to opt-in to their procurement process. A copy of the letter is attached at **Appendix C**.

### Proposal/Current Position

4. To agree to recommend to Council that Public Sector Audit Appointments be appointed as the Council’s ‘Specified Person’ for the appointment of a new External Auditor.

5.

### PSAA prospectus

6. The full prospectus is attached to this paper (**Appendix A**). PSAA suggest that over 200 bodies have expressed an interest in joining their group procurement (Ashford Borough Council is one of these). PSAA intend to run 2 or 3 large contract areas, awarding contracts to a small number of firms. By procuring over these areas it will be seeking to secure “best possible prices” as a “top priority” of their procurement exercise. The intended contract duration will be 3 years with a 2 year option (so, up to 5 year commitment but the decision to extend will be at the PSAA’s discretion).
7. The prospectus outlines the benefits of the scheme as being:
  - a. assured appointment of a qualified, registered, independent auditor
  - b. appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
  - c. on-going management of independence issues
  - d. securing highly competitive prices from audit firms

- e. minimising scheme overhead costs
  - f. savings from one major procurement as opposed to a multiplicity of small procurements
  - g. distribution of surpluses to participating bodies
  - h. a scale of fees which reflects size, complexity and audit risk
  - i. a strong focus on audit quality to help develop and maintain the market for the sector
  - j. avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
  - k. enabling time and resources to be deployed on other pressing priorities
  - l. setting the benchmark standard for audit arrangements for the whole of the sector
8. PSAA has written to authorities seeking their firm commitment to opt-in to their proposal (**Appendix C**). The PSAA invitation to opt in to all principal authorities, allows a minimum of 8 weeks for acceptance of the invitation. An authority wishing to accept the invitation to opt-in must give notice of acceptance to PSAA before the closing date. The decision to accept the invitation must be taken by the members of the authority meeting as a whole. The Audit Committee has previously agreed that this represents the best route to procure the next External Auditor.

### Questions posed by PSAA

9. The Prospectus is seeking views on a number of questions which are reproduced below with some thoughts on possible responses. Members are asked to consider the questions and whether a response should be submitted by the committee:
- a. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?  
*Yes – the need for both quality and good value are important features that the council would look for in its Auditor. In addition it would be preferable that the auditor is active in the sector leading on technical accounting and governance matters.*
  - b. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?  
*The Council has benefited from having a longer term relationship with its auditors, which allows the auditor to build a fuller understanding of the Councils activities, aspirations, and priorities. Therefore a contract of 5 years would be preferable; however there is sense to have an option to break this after 3 years.*
  - c. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?  
*This is consistent with the current system for setting fees and it supported. It would be helpful if there was a mechanism for reviewing fee levels if a Council were to alter its risk profile, either through a*

*change in activity or improving its internal control processes and governance.*

- d. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive?

- i. Which specific benefits are most valuable to local bodies?

*The benefits that particularly appeal is the simplicity of the process offered, the other procurement routes required Audit Panels to be established and this creates issues of control and governance for the Council.*

*The opportunity to be part of a larger procurement process and achieve economies of scale is important as a single procurement or even County wide exercise would not be as attractive to an audit firm.*

- ii. Are there others you would like included?

*The Council has two companies that also need to be audited and the auditors need to be authorised by the Financial Conduct Authority to provide public audit services. This has resulted in high audit fees for the companies which are not proportionate to their turnover. It is important that there is flexibility within the procurement process to allow for these companies to be audited at a competitive fee.*

- e. What are the key issues which will influence your decisions about scheme membership?

*These reasons are similar to those outlined above.*

- f. What is the best way of us continuing our engagement with you on these issues?

*Regular information updates need to be emailed to Authorities who have expressed an interest.*

*The idea of a panel selected from a sample of interested authorities and potentially professional bodies is a good way to test further developments of the proposal, with fuller consultation when necessary.*

## **Implications and Risk Assessment**

10. The implication of not opting in the PSAA's invitation would mean that the Council would either have to:
- a. set up an independent auditor panel. The panel must have a majority of independent members. The Act defines independent members as independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority on the panel assessing bids and choosing which audit firm to recommend to the Council for appointment as the Council's external auditor.
  - b. Alternatively, the Act allows the Council to join with other authorities to set up a joint auditor panel. Again this would need a majority of independent appointees (members). This option also depends on there being other councils to join with. Research undertaken by the Head of Audit Partnership failed to identify any other authorities



considering this method of appointment to whom this Council could look to partner.

11. Neither of these alternatives are particularly suitable for the Council. Both would be more time and money intensive to do and without the bulk buying power of sector led procurement could result in a more costly service. There is also risk associated with management of audit quality and independence through local appointment.
12. The Act demands that councils appoint an external auditor through one of the defined routes by the end of December 2017. If the Council chooses not to act at all, then the Secretary of State holds reserve power to intervene.
13. Therefore the proposal the opt into the national procurement option manages the risks associated with the procurement of an external auditor.

### **Equalities Impact Assessment**

14. An Equalities Impact Assessment is not applicable as this report deals with the process for the procurement of the External Auditor.
15. The procurement of an external auditor has no significant equalities impacts.

### **Other Options Considered**

16. These were reported to the Committee on the 16th June.

### **Reasons for Supporting Option Recommended**

17. Members have previously been consulted on this matter through the [Audit Committee] whose conclusions are summarised in this report. Then, the Council had not yet received the formal invitation to opt in to PSAA's arrangements.

### **Next Steps in Process**

18. The Committee is asked to endorse PSAAs' invitation to opt in to the sector led option for appointment of external auditors for five financial years starting 1 April 2018
19. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 demands that a decision to opt in must be one of a meeting of the Council as a whole. The Council then needs to formally respond to PSAA's invitation in the form named by PSAA by 17 March 2017.
20. PSAA will begin the formal procurement after this date. It expects to award contracts in summer 2017 and consult with authorities to make the appointment by the statutory deadline of December 2017.

### **Conclusion**

21. The Prospectus from PSAA outlines an acceptable proposal to the council for the procurement of its next external auditor.
22. The Council should opt-in to the proposal.

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

- 23.
- 24.

## Contact and Email

25. Ben Lockwood

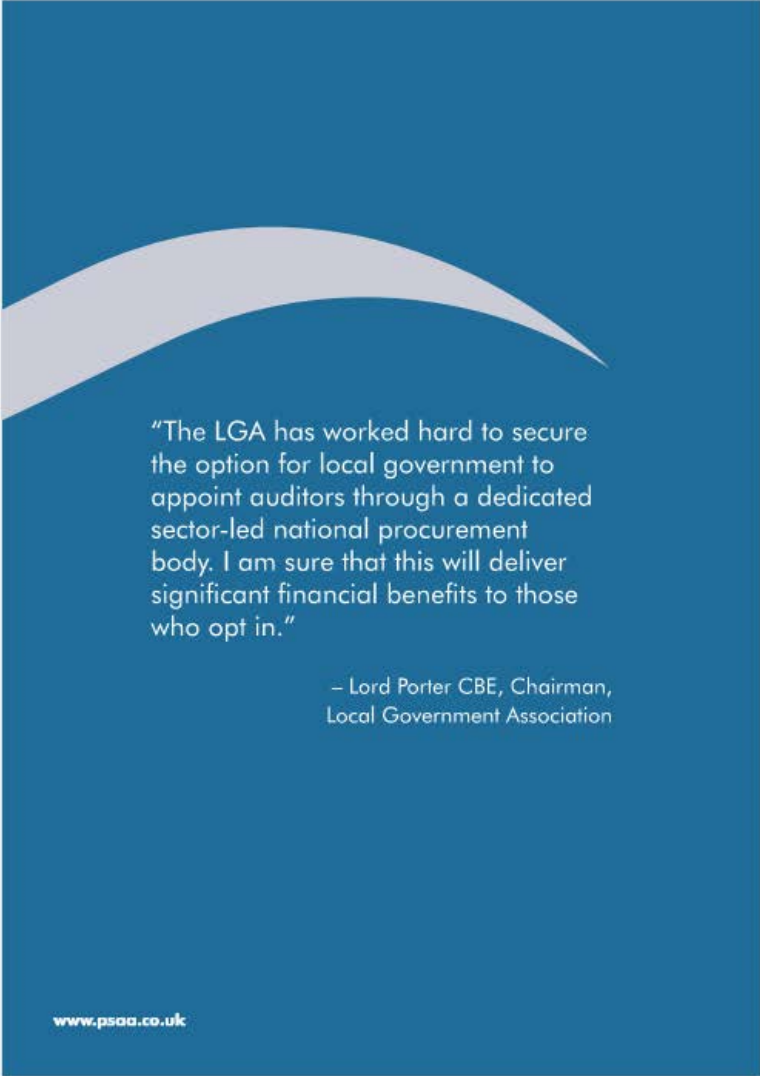
[Ben.lockwood@ashford.gov.uk](mailto:Ben.lockwood@ashford.gov.uk)



Developing the option  
of a national scheme for  
local auditor appointments

[www.psa.co.uk](http://www.psa.co.uk)

  
Public Sector  
Audit Appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,  
Local Government Association

[www.psaa.co.uk](http://www.psaa.co.uk)

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.



Public Sector  
Audit Appointments

## Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

[www.psaa.co.uk](http://www.psaa.co.uk)

## PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

  
Public Sector  
Audit Appointments

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,  
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,  
Police and Crime Commissioners  
Treasurers’ Society (PACCTS)

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## The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

  
Public Sector  
Audit Appointments

## PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

[www.psaa.co.uk](http://www.psaa.co.uk)

## PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,  
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,  
Fire Finance Network

[www.psaa.co.uk](http://www.psaa.co.uk)

## PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

  
Public Sector  
Audit Appointments



## The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

## How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)



The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

#### **BOARD MEMBERS**

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

#### **CHIEF OFFICER**

Jon Hayes, former Audit Commission Associate Controller

[www.psa.co.uk](http://www.psa.co.uk)

*“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”*

– Andrew Burns, Director of Finance and Resources,  
Staffordshire County Council

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Public Sector  
Audit Appointments



Appointing person: Frequently asked questions (updated 8 November 2016)

Question	Response
<p>1. What is an appointing person and what bodies are eligible to opt in?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. PSAA is a not-for-profit company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission. The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>Eligible bodies are only those principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities (covering elected regional mayors), national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies. Smaller authorities (such as parish councils) and NHS bodies, including accountable care organisations, are not eligible to opt in.</p> <p>A list of 493 local government bodies currently eligible for the appointing person scheme is available on the appointing person page of our website (<a href="http://www.psa.co.uk/supporting-the-transition/appointing-person/">http://www.psa.co.uk/supporting-the-transition/appointing-person/</a>).</p>

Question	Response
2. When will invitations to opt in be issued?	<p>The invitation to opt in was issued on 27 October 2016 with a closing date for acceptance of 9 March 2017. This allows considerably longer than the statutory minimum period of eight weeks, for the requirement under the regulations that authorities must make the decision to opt in at a full council meeting. As corporations sole, the full council requirement does not apply to police and crime commissioners.</p> <p>The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities and confirm appointments before the 31 December 2017 deadline to appoint auditors for the following financial year.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our timetable means that we will need to start preparing tender documentation early in 2017, so we will need to know which authorities have opted in.</p>
3. How do we have to make the decision to accept the invitation to opt in?	<p>In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.</p>
4. Can we join after it has been set up or do we have to join at the beginning?	<p>One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the</p>

Question	Response
	<p>economies of scale we are likely to achieve. This will not prevent authorities from applying to join the appointing person scheme in later years (and PSAA must agree to the request unless there are reasonable grounds to refuse), but they will need to make their own arrangements to appoint an auditor in the interim, which will include establishing an auditor panel. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe, that is by 9 March 2017.</p>
<p>5. Will membership be free for existing members of the LGA?</p>	<p>The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.</p>
<p>6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?</p>	<p>We have established a stakeholder advisory panel which will comment on our proposals. Members of the panel are drawn from representative organisations for councils, police and fire bodies. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.</p> <p>PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in</p>

Question	Response
	<p>comments and observations to PSAA by emailing <a href="mailto:appointingperson@psaa.co.uk">appointingperson@psaa.co.uk</a> and via the LGA and their principal advisors.</p>
<p>7. Will there be standard contract terms and conditions?</p>	<p>The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).</p>
<p>8. What will be the length of the contracts?</p>	<p>The length of contract between PSAA and firms will be five years.</p>
<p>9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?</p>	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
<p>10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?</p>	<p>PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.</p>

Question	Response
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	<p>PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.</p> <p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 to ensure that every auditor appointment it makes passes this test and auditors must comply with the requirements of the Ethical Standards issued by the Financial Reporting Council. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>



Question	Response
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit is regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel.</p> <p>PSAA is developing a procurement strategy which may include a limit on the total business available to any one firm.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> <li>• firms have a regional presence;</li> <li>• greater continuity of staff input; and</li> <li>• a better understanding the local political, economic and social environment.</li> </ul>
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the</p>

Question	Response
	FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p> <ul style="list-style-type: none"> <li>• establish an overall strategy for procurement - by November 2016;</li> <li>• achieve 'sign-up' of opted-in authorities - by 9 March 2017;</li> <li>• invite tenders from audit firms - by April 2017;</li> <li>• award contracts - by 30 June 2017;</li> <li>• consult on and make final auditor appointments - by 31 December 2017; and</li> <li>• consult on, propose audit fees and publish fees - by 31 March 2018.</li> </ul>
18. What are the terms of reference of the appointing person?	PSAA is a not-for-profit company wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person going forward rather than a transitional body which has overseen the transition from the Audit Commission to the new appointing person arrangements.

Question	Response
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Local Audit and Accountability Act 2014, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of the firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register, meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. PSAA will take a close interest in feedback from opted-in bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

Question	Response
<p>21. In what circumstances can an auditor be changed during the five year opt-in period, and how does this differ from locally procured arrangements?</p>	<p>The main circumstances in which PSAA will consider changing an auditor appointment during the five year compulsory appointing period are either for independence reasons, for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p> <p>An authority appointing its own auditor will find it more difficult to change their auditor appointment during the contracted period, as this would require the authority to conduct a new selection and procurement exercise. The appointing person scheme will therefore provide more flexibility for opted-in bodies.</p>
<p>22. How will audit fee levels be set for each individual body with the objective of recovering PSAA costs at the aggregate level?</p>	<p>PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as currently evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.</p> <p>2018/19 scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2017. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable in March 2018. Where more or less work is required than is envisaged in the scale fee, a fee variation process will apply. The variations process will ensure that fees for additional work</p>

Question	Response
	cannot be invoiced until agreed with the audited body and approved by PSAA.
23. What will be the future arrangements under the appointing person scheme for certifying grant claims?	<p>PSAA's audit contracts from 2018/19 will not cover certification work. PSAA has no power under the Local Audit and Accountability Act 2014 to make certification arrangements, and its arrangements will apply only to opted-in bodies. Any certification work required by grant paying government departments will need to be undertaken using a tripartite agreement between an audited body, an audit firm and the grant paying body, under instructions prepared by the grant paying body.</p> <p>The Department for Work and Pensions is developing its arrangements for housing benefit subsidy claim certification from 2018/19 on this basis. Where applicable, local authorities will appoint an auditor for this certification work (for which an auditor panel is not required) and may if they wish choose to use the same auditor appointed by PSAA for the audit of the accounts, if they are opted-in bodies.</p>
24. How will the appointing person scheme deal with an authority that is dissatisfied with its auditor and wants a change (e.g. because of quality, relationships, or a conflict of interest)?	<p>As with the current arrangements, where an authority is dissatisfied with its auditor, concerns should be raised in the first instance with the firm's Engagement Lead and subsequently with the firm's PSAA Contact Partner (as indicated on communications between the firm and the authority).</p> <p>If the authority is not satisfied with the response of the firm, then the matter should be raised with PSAA.</p>

Question	Response
	<p>As appointing person, PSAA appoints a firm as auditor to an authority. The firm is responsible for nominating an individual to act as the Engagement Leader on the audit of an authority.</p> <p>PSAA will consider changing an auditor appointment in extremis if an authority is dissatisfied, but would expect the authority and the firm to have exhausted all avenues for resolution before doing so. Maintaining the independence of the auditor is an important part of this consideration.</p> <p>PSAA will consider changing an auditor appointment during the five year compulsory appointing periods, if a conflict of interest involving the existing audit firm is identified, or because of the emergence of new joint working arrangements.</p> <p>The appointing person scheme will have the flexibility to provide an audit alternative if required in these cases.</p> <p>PSAA will be monitoring the quality of audit services provided as part of the contractual terms of appointment to be agreed with firms.</p>
<p>25. Will an auditor be able to provide my authority with non-audit consultancy services?</p>	<p>The independence requirements for all auditors within the local public audit regime are the same whether locally appointed, or part of the appointing person regime. These requirements are specified by the Financial Reporting Council in the Ethical Standard and applied to local public audit as determined by the NAO.</p> <p>The services that an auditor can provide are the same, whatever the appointment method.</p>

Question	Response
	<p>As the Appointing Person, PSAA will perform the role otherwise required of an auditor panel to advise the authority on the maintenance of the independence of the auditor [Local Audit and Accountability Act 2014 section 10(1)].</p> <p>PSAA will consider changing an auditor appointment during the five-year compulsory appointing period for independence reasons, if for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p>
<p>26. Will the appointing person arrangements cover the audit of an authority's pension fund where it is the administrative body responsible for preparing the pension fund accounts?</p>	<p>Yes. Pension funds are not separate legal entities from their administering local authority, and are therefore not listed as relevant authorities in schedule 2 of the Local Audit and Accountability Act 2014. The auditor appointment to an opted-in local authority will include the audit of the pension fund where the authority is the administering body. As is currently the case, the pension fund audit will be subject to a separate engagement and scale audit fee, but the auditor appointment will cover both the local authority and the pension fund.</p>

<p>27. How does the opt-in process work for police and crime commissioners and chief constables given that chief constables must not appoint their own auditor?</p>	<p>PSAA has issued the opt-in invitation to chief constables as well as police and crime commissioners because the Local Audit (Appointing Person) Regulations 2015, issued under the provisions of the Local Audit and Accountability Act 2014, require the appointing person to issue an invitation to "all principal authorities which fall within the class of authorities in relation to which the person has been specified" (Regulation 8). PSAA's specification as an appointing person covers all relevant local government authorities that are principal bodies, as listed in Schedule 2 of the 2014 Act. Chief constables and police and crime commissioners are listed separately as relevant authorities.</p> <p>While the responsibility for the decision about appointing an auditor for the chief constable is reserved to the police and crime commissioner for a police area (under schedule 3 of the Local Audit and Accountability Act 2014), the police and crime commissioner will need to consider this decision with the chief constable. The opt-in invitation information sent by PSAA provides chief constables with essential information about the appointing person arrangements, including the timetable for the opt-in process. This should enable chief constables to engage with police and crime commissioners on this decision.</p> <p>Where a police and crime commissioner makes a decision to opt into PSAA's national auditor appointment arrangements and submits a notice of acceptance of the invitation, PSAA will need to confirm that the notice covers the chief constable if this is not explicitly stated. As separate legal entities, PSAA will subsequently need to make separate auditor appointments,</p>
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Question	Response
	albeit of the same audit firm, to the opted-in police and crime commissioner and chief constable for a police area.



27 October 2016

**Email:** [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk)

Tracy Kerly  
Ashford Borough Council  
Civic Centre  
Tannery Lane  
Ashford Kent TN23 1PL

Copied to: Ben Lockwood, Director of Finance, Ashford Borough Council  
Terry Mortimer, Director of Law and Governance, Ashford Borough Council

Dear Ms Kerly

### **Invitation to opt into the national scheme for auditor appointments**

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

Yours sincerely

Jon Hayes, Chief Officer

PSAA, 3<sup>rd</sup> floor, Local Government House, Smith Square, London, SW1P 3HZ  
T 020 7072 7445 [www.psaa.co.uk](http://www.psaa.co.uk) Company number: 09178094

## **Appointing an external auditor**

### **Information on the national scheme**

#### **Public Sector Audit Appointments Limited (PSAA)**

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### **The national scheme for appointing local auditors**

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### **What the appointing person scheme will offer**

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

### **Auditor appointments and independence**

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

### **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## **Opting in**

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## **Timetable**

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

## **Enquiries**

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

Audit Committee  
Ashford Borough Council  
Progress Report and Update  
Year ended 31 March 2017

November 2016

**Elizabeth Jackson**

Engagement Lead

**T** 0207 728 3329

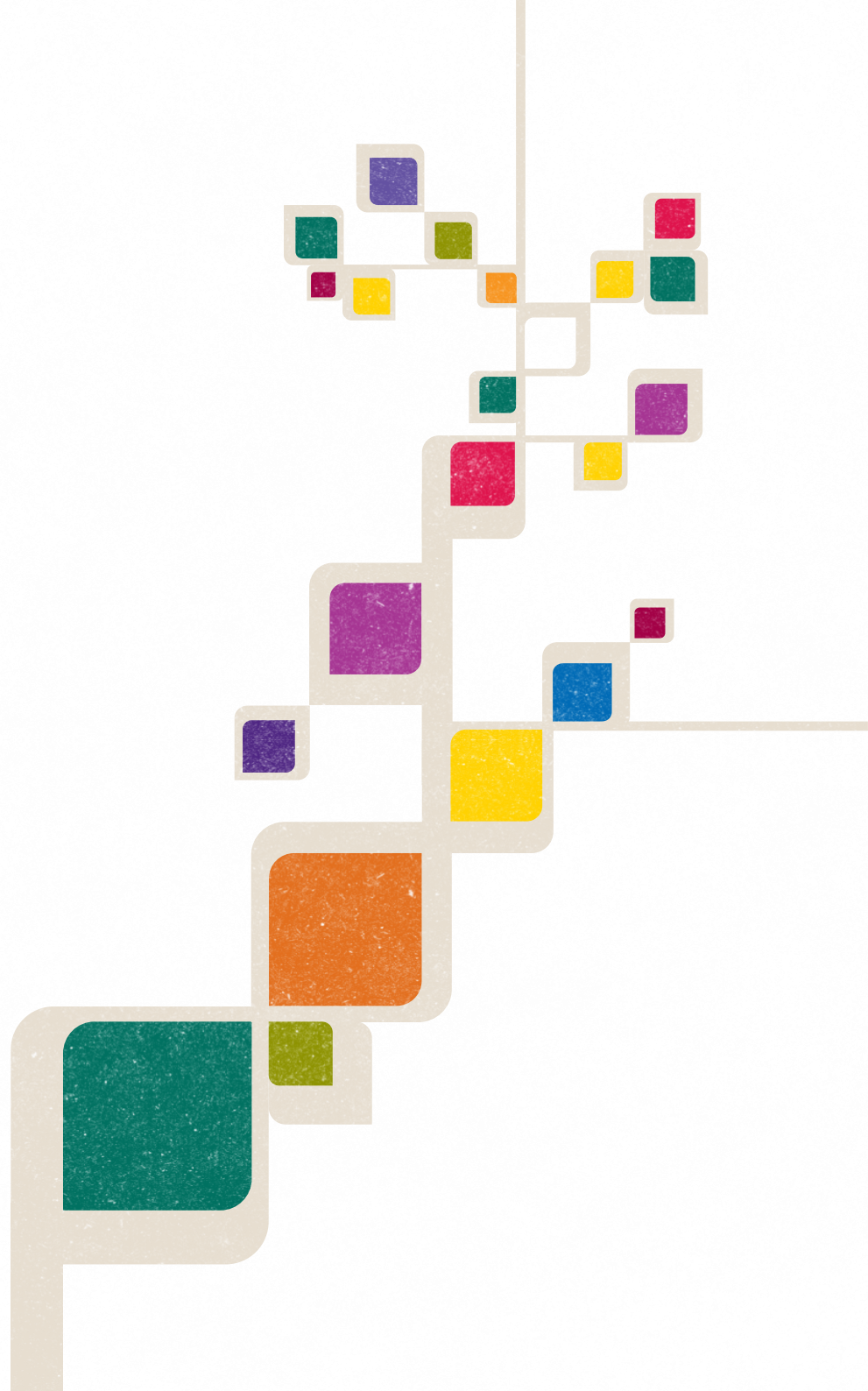
**E** [elizabeth.l.jackson@uk.gt.com](mailto:elizabeth.l.jackson@uk.gt.com)

**Terry Blackman**

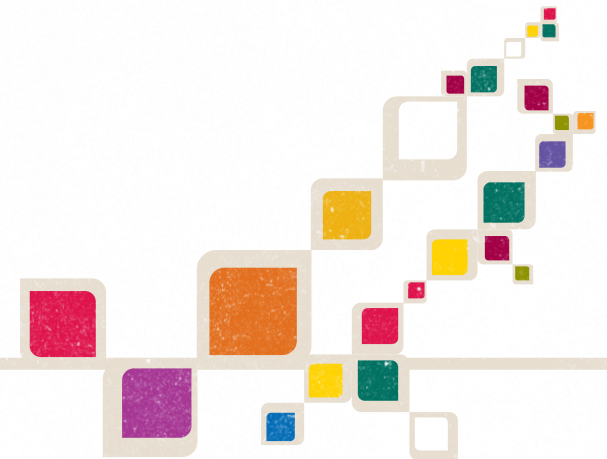
Manager

**T** 0207 728 3194

**E** [terry.blackman@uk.gt.com](mailto:terry.blackman@uk.gt.com)



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





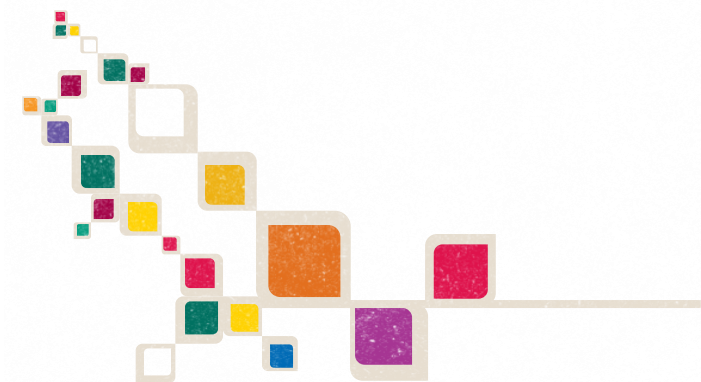
# Introduction

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

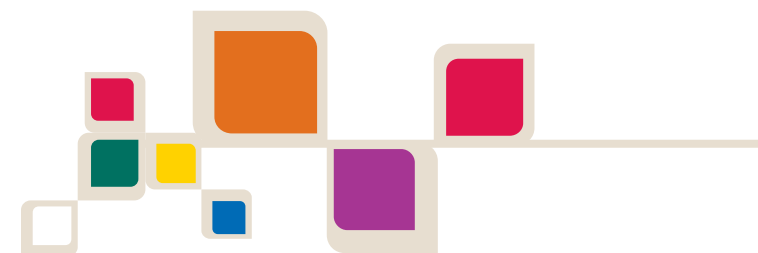
Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Advancing closure: the benefits to local authorities (July 2016) [www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/](http://www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/)
- Building a successful joint venture company (April 2016) [www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/](http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/)
- Innovation in public financial management (December 2015); [www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

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 Engagement Manager.

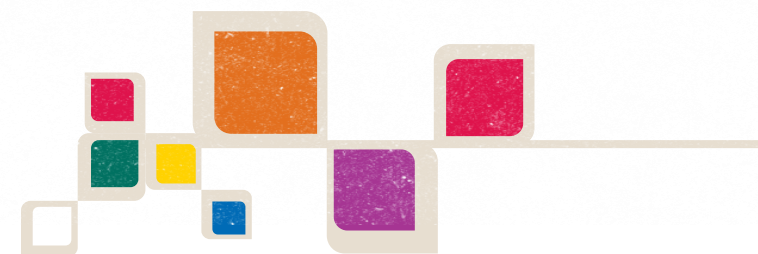


# Progress at November 2016



2015/16 work	Planned Date	Complete?	Comments
<p><b>Annual Audit Letter</b> We are required to issue the Annual Audit Letter by the 31 October.</p>	31/10/16	Yes	Included in the papers for this meeting
<p><b>Grant Claims Audit</b> We are required to certify your Housing Benefits Grant Claim by 30 November. We are not auditing any other grant claims under the PSAA regime. We will issue a certification letter, confirming the outcome of our work and the fees charged. This will be presented to the March Audit Committee.</p>	30/11/16	Yes	Claim certified ahead of national deadline. The fee will be £8,112 as determined by PSAA.
2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016 and considered by the June committee. The fee letter confirmed the 2016/17 scale audit fees as £60,311, in line with 2015/16 fee.
<p><b>Accounts Audit Plan</b> 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 2016-17 financial statements.</p>	March 2017	Not yet due	Our Audit Plan will be presented to the March 2017 Audit Committee.
<p><b>Interim accounts audit</b> Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	November 2016 - March 2017	Not yet due	The finding from our interim audit will be reported in the Audit Plan to be presented to the March 2017 Audit Committee.

# Progress at November 2016



2016/17 work	Planned Date	Complete?	Comments
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</li> </ul>	<p>May 2017 - June 2017</p>	<p>Not yet due</p>	<p>We are planning to complete our audit by 31<sup>st</sup> July, as in 2015/16, as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>The findings from this work will be presented within our Audit Findings Report to be presented to the July 2017 Audit Committee.</p>
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>November 2016 – March 2017</p>	<p>Not yet due</p>	<p>We will set out the results of our risk assessment and the proposed focus of our work in the Audit Plan to be presented to the March 2017 Audit Committee.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report in July 2017.</p> <p>We will include our conclusion as part of our report on your financial statements which we are planning to issue by 31 July 2017.</p>
<p><b>Other areas of work</b></p> <p>Meetings with Members, Officers and others</p>	<p>Ongoing</p>	<p>N/a</p>	<p>We would always be happy to discuss any other ways in which Grant Thornton can support the Council.</p> <p>Further details of the publications that may be of interest to the Council are set out from page 6.</p>

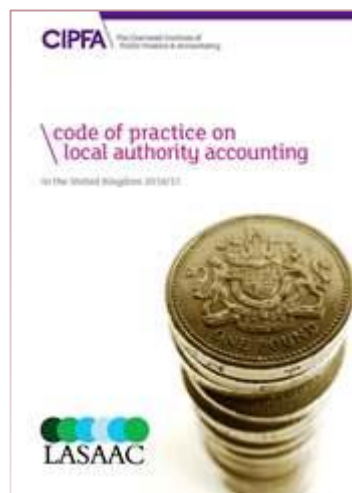
# Technical Matters



# Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

This is the seventh edition of the Code to be prepared under International Financial Reporting Standards (IFRS), which have been adopted as the basis for public sector accounting in the UK. The 2016/17 Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2016.

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).



The Code includes changes resulting from the 'Telling the Story' review on improving the presentation of local authority financial statements. These include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

Amendments arising from the narrow scope amendments to International Financial Reporting Standards including changes from the following amended standards:

IAS 1 Presentation of Financial Statements under the International Accounting Standards Board Disclosure Initiative

IAS 24 Related Party Disclosures in relation to key management personnel as a result of the Annual Improvements to IFRSs 2010 – 2012

IFRS 11 Joint Arrangements Accounting for Acquisitions of interest in Joint Operations

IFRS 8 Operating Segments as a result of the Annual Improvements to IFRSs 2010 – 2012.

An update to the Statements Reporting Reviews of Internal Controls Section of the Code for the changes to the Delivering Good Governance in Local Government: Framework (2016) published by CIPFA and SOLACE.

# Sector issues and developments



**National Audit Office:** Below is a selection of reports issued during 2016 which may be of interest to Audit Committee members. Please see the website for all reports issued by the NAO.



#### Local welfare provision

Overall spending on discretionary local welfare support by central and local government has reduced since April 2013. The consequences of this gap in provision are not understood.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/local-welfare-provision/>

Published:  
12 Jan 2016



#### English devolution deals

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended

Sector(s): [Central Finance and Treasury](#), [Community and society](#)

Performance Improvement area(s): [Economic growth](#), [Local service delivery](#)

<https://www.nao.org.uk/report/english-devolution-deals/>

Published:  
20 Apr 2016



#### Financial sustainability of local authorities: capital expenditure and resourcing

Local authorities have kept up levels of capital spending but face pressure to meet debt costs and maintain investment in existing assets.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

Published:  
15 Jun 2016

## National Audit Office reports (continued)



### Overview: Local government

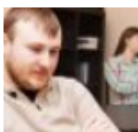
This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:  
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



### The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:  
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>



Grant Thornton



# Integrated Reporting

## Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

*Integrated reporting: Looking beyond the report* was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

## Grant Thornton publications

### Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

 Grant Thornton  
An instinct for growth

Integrated reporting  
Looking beyond the report  
November 2016



# Integrated Thinking and Reporting

## Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

## CIPFA Publications

### Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?



# Brexit

## Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

### Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

### Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

## Grant Thornton update

### Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

### Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

# Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

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The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

**Staffing** – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

**Financial viability** – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

**Market volatility** – for example pension fund and charitable funds investments and future treasury management considerations.

**International collaboration** – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

## Grant Thornton update

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For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>



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**Audit Committee - Future Meetings**

<b>Date 21/03/2017</b>			
<b>Publish by 13/03/17</b>			
<b>Reports to Management Team by 9<sup>th</sup> March</b>		<b>Council 20/04/17</b>	
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 Remedying 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	

<b>Date 15/06/2017</b>			
<b>Publish by 07/06/17</b>			
<b>Reports to Management Team by 25<sup>th</sup> May</b>		<b>Council 20/07/17</b>	
1	An Early Look at the Statement of Accounts for 2016/17	MS	
2	Report Tracker for Future Meetings	DS	

<b>Date 29/06/2017</b>			
<b>Publish by 21/06/17</b>			
<b>Reports to Management Team by 15<sup>th</sup> June</b>		<b>Council 20/07/17</b>	
1	Corporate Enforcement Support & Investigations Team Annual Report 2016/17	PN/HD	
2	Internal Audit Annual Report 2016/17	RC	
3	Annual Report of the Audit Committee 2016/17	RC	
4	Approval of Annual Governance Statement 2016/17	PN/NC	
5	2016/17 Financial Statements – Letters of Assurance to External Auditors	PN	
6	External Audit Progress Report	Gr Th	
7	The External Audit Work Plan for Ashford Borough Council and Scale of Fees 2017/18	Gr Th (cover by ABC)	
8	Report Tracker for Future Meetings	DS	

<b>Date 27/07/2017</b>			
<b>Publish by 19/07/17</b>			
<b>Reports to Management Team by 13<sup>th</sup> July</b>		<b>Council 19/10/17</b>	
1	Statement of Accounts 2016/17 and the External Auditor's Audit Findings Report	Gr Th (cover by PN/BL)	
2	Report Tracker & Future Meetings	DS	

<b>Date 28/09/2017</b>			
<b>Publish by 20/09/17</b>			
<b>Reports to Management Team by 14<sup>th</sup> September</b>		<b>Council 19/10/17</b>	
1	Annual Governance Statement – Progress on Remediating Exceptions	PN/NC	
2	Strategic Risk Management	KH/RC	
3	External Audit Progress Report	Gr Th	
4	Report Tracker & Future Meetings	DS	

<b>Date 05/12/2017</b>			
<b>Publish by 27/11/17</b>			
<b>Reports to Management Team by 23<sup>rd</sup> November</b>		<b>Council 14/12/17</b>	
1	Annual Governance Statement – Progress on Remediating Exceptions	PN/NC	
2	Annual Audit Letter 2016/17	Gr Th (cover by PN)	
3	Internal Audit Interim Report	RC	
4	External Audit Progress Report	Gr Th	
5	Report Tracker & Future Meetings	DS	

25/11/2016