



AUDIT COMMITTEE

Notice of a Meeting, to be held in the Council Chamber - Ashford Borough Council on
Tuesday, 20th March, 2018 at 7.00 pm.

The Members of the Audit Committee are:-

Councillor Waters (Chairman)
Councillor Barrett (Vice-Chairman)

Cllrs. Buchanan, Burgess, Shorter, Sims, Smith and Suddards

Agenda

Page Nos.

- | | | |
|----|--|---------|
| 1. | Apologies/Substitutes | |
| | To receive Notification of Substitutes in accordance with Procedure Rule 1.2(iii) | |
| 2. | Declarations of Interest | 1 - 2 |
| | To declare any interests which fall under the following categories, as explained on the attached document: | |
| | a) Disclosable Pecuniary Interests (DPI) | |
| | b) Other Significant Interests (OSI) | |
| | c) Voluntary Announcements of Other Interests | |
| | See Agenda Item 2 for further details | |
| 3. | Minutes of the Meeting of this Committee held on 5 December 2017 | 3 - 10 |
| 4. | Certification of Grant Claims - Annual Letter | 11 - 16 |
| 5. | Presentation of Financial Statements | 17 - 38 |
| 6. | Risk Management Framework Update | 39 - 40 |
-

7.	Annual Governance Statement - Progress on Remedying Exceptions	41 - 44
8.	Internal Audit Charter	45 - 46
9.	Internal Audit and Assurance Plan 2018/19	47 - 82
10.	Business Continuity - Progress Update	83 - 88
11.	External Audit 2017/18 Audit Plan	89 - 108
12.	Report Tracker for Future Meetings	109 - 112

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

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

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

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

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

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

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

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

Advice to Members on Declarations of Interest:

- (a) Government Guidance on DPI is available in DCLG’s Guide for Councillors, at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5962/2193362.pdf
- (b) The Kent Code of Conduct was adopted by the Full Council on 19 July 2012, and a copy can be found in the Constitution at <http://www.ashford.gov.uk/part-5---codes-and-protocols>
- (c) If any Councillor has any doubt about the existence or nature of any DPI or OSI which he/she may have in any item on this agenda, he/she should seek advice from the 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.

This page is intentionally left blank

Audit Committee

Minutes of a Meeting of the Audit Committee held in the Council Chamber, Civic Centre, Tannery Lane, Ashford on the **5th December 2017**.

Present:

Cllr. Waters (Chairman);
Cllr. Barrett (Vice-Chairman);
Cllrs. Buchanan, Shorter, Smith, Suddards.

Apologies:

Cllrs. Burgess, Sims.

Also Present:

Director of Finance and Economy, Head of Health, Parking and Community Safety, Head of Corporate Policy, Economic Development and Communications, Head of Audit Partnership, Audit Manager, Member Services Officer.

Ciaran McLaughlin - Grant Thornton UK.

251 Minutes

In accordance with Procedure Rule 9.3 Mr Relf, a local resident, said he wanted to speak on Minute No. 172 – Minutes. The Portfolio Holder for Finance and IT had referred to the high value placed on counter fraud and investigation work undertaken by the Council. However the Council could only do so much with limited resources, given that over 10,000 residents claimed £38m per year it was easy for the system to be abused, which in his opinion it was. The Council had a portfolio of properties that were rented out and also prepared, held and had access to the Electoral Register therefore could ascertain who lived in those properties. Mr Relf questioned whether it mattered and if the only concern was the rent being paid? Further to this, the Council asked the public to report fraud as it came in many different forms. When successes were announced in relation to fraud the reality meant that the amount recovered less departmental costs was not as significant as first thought. Mr Relf had provided the Auditors with some information in relation to fraud and had offered additional information since however it was declined. He questioned whether members of the public should report information pertaining to fraud to the Council. He referred to a comment from the Auditor that the areas that he had raised were not the responsibility of Ashford Borough Council. Mr Relf questioned why the Council's website did not detail the contact details for the agencies which he would need to contact in relation to fraud outside the remit of the Council.

The Portfolio Holder for Finance and IT advised that at the last meeting of this Committee, Mr Relf had been advised that the Council was not responsible for the investigation of some potential incidents of fraud that he had highlighted to the Committee and the Council's External Auditor. The fraud section of the Council's website had links to the Department of Work and Pensions (DWP) and their Single Fraud Investigation Service (SFIS). As discussed at the last meeting of this Committee, the responsibility for managing the rating list for both Council Tax and Business Rates was with the Valuation Office (VOA). There were links to the VOA

on the Council's website in the context of a customer appealing a decision on their property but not specifically in relation to fraud. He had requested that the Web Team updated the Fraud page on the website to include a link to the VOA website where properties could be reported to them for investigation. Furthermore, he had requested that this be completed by the end of the month. He thanked Mr Relf for his question.

The Chairman drew attention to Mr Relf's inference that the Council did not care who was in their properties. He advised that the Council did care and there were many people in the Borough that were in desperate need of housing, therefore ensuring that their properties were not the subject of fraud was a priority.

The Director for Finance and Economy advised that he understood there was a backlog at the VOA. Concerns that Mr Relf had raised could be raised with the VOA directly.

Resolved:

That the Minutes of the Meeting of this Committee held on the 28th September 2017 be approved and confirmed as a correct record.

252 Business Continuity Planning – Follow Up

The Head of Health, Parking and Community Safety gave the Committee an update on the progress to date with the overarching Business Continuity Plan. Since the last meeting of the Committee, Officers had been working towards the sign off of the Business Continuity Plan by Management Team in January 2018. Both individual service plans and the overarching plan were to be discussed, along with the associated risk assessment. Business Continuity was now classed as a strategic risk and was under her area of responsibility. Considerable progress had been made in respect of an alternative site as a back-up facility; this had been identified as Repton Connect which would be available from March 2018. Other public buildings within the Council's ownership were being looked at and leases were being renegotiated to allow the Council to utilise them should the Civic Centre be unavailable. The Aspire Depot was also available for a small number of staff.

She advised that the Business Continuity Plan was 80% finalised with a few issues needing to be addressed. Lead Officers had met with each service and gone through each individual plan in detail. This work had enabled the creation of a priority list of which services needed to be 'resurrected' first and in which order. Testing would be carried out in February/March 2018, with one area in particular being tested by Zurich. The Business Continuity Steering Group had met with the Chief Executive as the Chairman. A pre-Cabinet briefing had been scheduled for February 2018 to bring Members up to speed with the Business Continuity Plan. The Head of Health, Parking and Community Safety advised that Management Team had taken note of the weak audit rating and an enormous amount of work had been undertaken throughout the Council to remedy this. Two areas in particular that had made significant progress were Planning and Housing.

The Head of Audit Partnership verified the progress made to date with the Business Continuity Plan. He confirmed that he was satisfied that that the Council was on track to meet/closely meet the recommendations and timescales as detailed in the audit findings.

In response to questions, the Head of Health, Parking and Community Safety advised that Business Continuity had previously been viewed as an administrative exercise. All Team Leaders/Managers had been advised of the importance of Business Continuity and the process had enabled them and the Management Team to better understand their services. The signing off of individual Business Continuity Plans ensured that each service would be able to carry on should the Plan need to be implemented.

The impact of a cyber-attack and the expected response was considered. There were a number of systems in place to try to prevent such attacks. The identification of such an attack would be paramount. Should such an attack be identified contact would be made with Interpol's Cyber Crime team. It was noted that cyber-attacks were usually mass attacks. The Director for Finance and Economy confirmed that the systems in place were regularly audited and tested and he was confident that they had the necessary systems and safeguards in place.

The Head of Audit Partnership confirmed that he would circulate the updated action plan to the Committee via Member Services.

Resolved:

That the update, and progress made to date, be received and noted.

253 Annual Governance Statement – Progress on Remediating Exceptions

The report updated on the progress made towards the three areas of review highlighted by the 2016/17 Annual Governance Statement. The Head of Corporate Policy, Economic Development and Communications, introduced the report and gave an update on the delivery dates for the three areas. In addition to the Corporate Peer Challenge that was planned for April 2018, there would also be service based peer challenge with a focus on Planning that was scheduled for February 2018.

The Portfolio Holder for Finance and IT welcomed the Peer Challenge and endorsed this to the Committee. He felt that it demonstrated the Council's willingness to learn and improve.

Resolved:

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

254 Annual Audit Letter

The Chairman introduced Ciaran McLaughlin to the Committee, he was the new Engagement Lead at Grant Thornton.

The Vice-Chairman drew attention to the 'valuation of the pension fund net liability' and questioned why bullet point three, in column two, and the second conclusion, in column three, contradicted one another? He requested clarification on whether there was an issue that required resolution. Ciaran McLaughlin advised that the third column required updating. The work had been undertaken and the figures were within range.

It was anticipated that Grant Thornton would be able to issue the certificate closing the audit year by the end of December 2017. Furthermore, the certification of grants had been completed on 30th November 2017.

Ciaran McLaughlin apologised that there were a number of statements within the Annual Audit Letter that had not been updated.

The Chairman advised that the Committee consisted of a cross-section of Members with a wide range of understanding, therefore he requested that reports should be provided with all the necessary data to ensure that the Committee had all of the information available to them.

An unqualified audit opinion had been issued, the Director of Finance and Economy felt that this was a positive direction of travel and should not be overlooked.

Resolved:

That the Annual Audit Letter be received and noted.

255 Internal Audit Interim Report

The report provided an update in the progress towards completing the 2017/18 Internal Audit & Assurance Plan. It also provided updated information required by Audit Standards, including an assessment of available audit time, results of audit work and commentary on the performance of the audit service.

Using a PowerPoint presentation, the Head of Audit Partnership drew the Committee's attention to the audit standards. He confirmed that they had worked with full independence and on no occasion had Officers or Members sought or gained undue influence over their scope or findings. Management had agreed to act on all recommendations that have been raised. Drawing attention to the resource position, the Head of Audit Partnership advised that he was satisfied that the Partnership had enough resources to deliver the audit plan. A trainee member of staff had recently accepted a permanent role and was on his way to becoming fully qualified. This would enhance the quality and quantity of audit days available to the Partnership. A member of staff was currently on long term sick leave. The ability of the Partnership to utilise contractors to fill this gap had decreased, however due to the resilience afforded by partnership working, there would be no significant impact. There would be a fall of available audit days, but it should be noted that this was within the 'buffer' and the Head of Audit Partnership was satisfied the audit plan could be delivered.

The Committee welcomed the success of the training scheme and felt that this should be built upon. They requested that the Head of Audit Partnership hold discussions with the other Authorities within the Partnership regarding appointing another trainee and report back.

The Head of Audit Partnership drew attention to the weak assurance ratings that had been issued and provided an update on these, one of which had been discussed earlier in the meeting. In respect of IT Disaster Recovery he could confirm that this had been given a sound audit rating in a report issued to officers after the papers deadline for this meeting.

Utilising a number of graphs, the Head of Audit Partnership drew attention to the performance of audits at Ashford over the past few years. In response to comments, he confirmed that in the future he would be able to provide a comparison in a 4/5 year format to mirror that of the audit plan. There had been a request to defer the food safety audit at the request of the Service due to staff shortages. He advised that this had been assessed and the Food Safety Agency performance indicator data had been reviewed which led them to agree to the deferral. He further advised that the Audit Manager had discussed this matter with the Service Head and following on from that discussion had presented the case to him for confirmation of the deferral. The decision had been carefully weighed up and considered and he confirmed that no undue influence had been gained.

Discussion was had regarding the ability of the Audit Team to be impartial and not to be the subject of undue pressure or coercion. The Head of Audit Partnership drew attention to their right to refuse to defer items in the audit plan. Furthermore, he and his Officers had direct access to Members and would be able to raise concerns with them directly.

The Director of Finance and Economy advised that audit planning was a matter that was now routinely on the Management Team agenda, which had enabled improved understanding and discussion and it was expected to achieve better co-ordination.

There had been a delay reported in respect of the IT Policy for In-house Developments. This had been accepted as the Council had undertaken a broader review of its digital strategy, which would encompass this area. The general record for action was good. The Head of Audit Partnership confirmed that no whistleblowing cases had been reported directly to Audit, however he was aware that the whistleblowing policy was in operation and was successful.

A mid-term review had been carried out, with consistent results across the Partnership. He felt that this was a strong tribute to the team. In addition he wished to highlight the 'Team of the Year' award that had been presented to the team at the Swale Stars awards earlier in the year. As a purely internal service they were often overlooked for such awards, so to be recognised was a testament to the team as a whole. He wished to extend his gratitude to the team for all of their hard work.

Resolved:

That

- i. the progress against the 2017/18 Internal Audit & Assurance Plan and findings so far be noted,**

- ii. **the Head of Audit Partnership investigates the potential for expanding the training scheme and taking on another trainee.**

256 Member Briefing on Audit Planning for 2018/19

The Head of Audit Partnership, using a PowerPoint presentation, gave the Committee an overview of the audit planning process for internal and external audit. He had also included a number of potential questions that the Committee may wish to consider when considering the audit plans in March 2018. The internal audit planning process was in accordance with the Public Sector Internal Audit Standards. so the plan must be approved by the Committee and report on resource requirements. The potential range of auditable activity was drawn from a number of sources including; the budget book, organisation charts, objectives, partners and risk registers amongst others. He then drew attention to the risk assessment, in particular financial, strategic and fraud risk. As part of the planning stage consultation would be held with Officers, Management Team and the Team as a whole.

In respect of External Audit Planning, the Head of Audit Partnership advised that External Auditors were bound by the Code of Audit Practice set by the National Audit Office. Grant Thornton would also prepare their own risk assessment and determine their approach to responsibilities and risks. It should noted that the Committee could only note the External Audit Plan, whereas they were able to approve the Internal Audit Plan. Fees that the External Auditor could charge were governed by the Public Sector Audit Appointments (PSAA). The ability to vary that fee was limited and agreement from PSAA would need to be sought.

Ciaran McLaughlin advised that the materiality figure of 2% of the Council's gross revenue account (£1.7m) was a benchmark. If errors under this amount were discovered then these would be reported and highlighted to this Committee.

Resolved:

That the presentation be received and noted.

257 External Audit Progress Report

Ciaran McLaughlin advised that the quarter to December had focused on the completion of the housing benefit grant certification. On the 29th November they had given an unqualified opinion on this with an unamended claim. This was a significant achievement. He had met with the Director of Finance and Economy earlier in the day to commence audit planning which would be published in March 2018.

The Director for Finance and Economy advised the Committee that this was the third year running that an unqualified opinion had been given on the housing benefit grant certification. He wished to extend his gratitude to the staff involved for this achievement.

Resolved:

That the progress report be received and noted.

258 Report Tracker and Future Meetings

The Chairman requested that Business Continuity be placed on the agenda for March.

The Head of Audit Partnership advised that he would provide the Chairman, and any other Members that wished, updated progress reports for the audits previously discussed.

The Director for Finance and Economy advised that in respect of building security, regular ID checks were carried out.

Resolved:

That, subject to the inclusion of an update on Business Continuity in March, the report be received and noted.

Agenda Item 4



ASHFORD
BOROUGH COUNCIL

Agenda Item No: 4
Report To: Audit Committee
Date of Meeting: 20 March 2018
Report Title: Certification Letter
Report Author & Job Title: Grant Thornton
Portfolio Holder: N/A
Portfolio Holder for:

Summary: The attached Letter reports the findings of the Audit of the Councils Housing Benefit Subsidy Claim.

Work now complete claim certified and for the third year in a row the claim is unqualified and un-amended

Key Decision: No

Significantly Affected Wards: None

Recommendations: **The Committee is recommended to:-**

I. Note the Letter

Financial: None

Financial Implications: The letter includes the fee outturn for the work which are in line with expectations.

Legal Implications: N/A

Equalities Impact Assessment: N/A

Other Material Implications: N/A

Exempt from Publication: NO

Contact: Maria.hadfield@ashford.gov.uk – Tel: (01233) 330545

This page is intentionally left blank



Grant Thornton

An instinct for growth™

Ben Lockwood
Ashford Borough Council
Civic Centre
Tannery Lane
Ashford
Kent TN23 1PL

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

T +44 (0)20 7383 5100
www.grant-thornton.co.uk

23 February 2018

Dear Ben,

**Certification work for Ashford Borough Council for year ended 31 March 2017:
Housing Benefit Subsidy claim**

We are required to certify the housing benefit subsidy claim submitted by Ashford Borough Council ('the Council'). Certification is an important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) has taken on the transitional responsibilities for the HB Count framework used for the certification of housing benefit subsidy claims. We have completed our work on the Council's 2016/17 housing benefit subsidy claim using the HB Count framework.

The Council's 2016/17 claim was for total Housing Benefit Subsidy of £36.5 million. We completed our work and certified the Council's claim prior to the deadline of 30 November 2017 stipulated by the Department for Work and Pensions. There were no amendments to the claim and our certificate was unqualified. Further details are set out at Appendix A.

There are no issues from our certification work on the housing benefit subsidy claim which we wish to highlight for your attention.

Yours sincerely,

Grant Thornton UK LLP

Appendix A - Details of claims certified for 2016/17

Claim	Value (£)	Amended?	Amendment value	Qualified?
Housing benefits subsidy claim	36,479,696	No	N/A	No

Appendix B: Fees for 2016/17

Claim	2016/17 indicative fee (£)	2016/17 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	10,650	10,650	0	N/A
Total	10,650	10,650	0	N/A

This page is intentionally left blank

Agenda Item 5



ASHFORD
BOROUGH COUNCIL

Agenda Item No: 5
Report To: Audit Committee
Date of Meeting: 20 March 2018
Report Title: Presentation of Financial Statements
Report Author & Job Title: Maria Hadfield
Senior Accountant
Portfolio Holder: Cllr. Shorter
Portfolio Holder for: Finance & ICT

Summary: The Council is required to follow statutory guidance for the publication of its accounts. Each year, this guidance is reviewed and updated. This report will look at the impact of these updates on the Council's accounts for 2017/18. In addition, the report reviews on the lessons learnt from the accounts process in 2016/17.

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

The accounts will be prepared on a 'going concern' basis.

Key Decision: No

Significantly Affected Wards: None specifically

Recommendations: **The Committee is recommended to:-**

- I. **Note the report**
- II. **Approve the accounting policies for the 2017/18 accounts in Appendix A**

Financial Implications: None

Legal Implications The Council is required to produce an annual set of accounts

Equalities Impact Assessment Not Required

Other Material Implications: None

Exempt from Publication: **NO**

Contact:

Maria.hadfield@ashford.gov.uk – Tel: (01233) 330545

Report Title: Presentation of Financial Statements

1. This report is to update members on the progress of the production of the Statement of Accounts 2017/18 (the Statement) and how changes are to be managed and implemented.
2. Members are asked to note the report and approve the 2017/18 Accounting Policies.

Introduction and Background

3. The Council is required to produce an annual statement of accounts for the financial year ending the 31 March by the end of June. These are then audited by the Council's external auditor and an opinion issued by the end of July.
4. Following the success of early closing last year and the introduction to early closing in the new Accounts and Audit regulations the team are again looking to close early, resulting in the annual statement of accounts for the financial year ending the 31 March being produced by the end of May. The Accounts will then be audited by Grant Thornton during early June with an opinion issued by the end of July.
5. This year there a few changes to the code (Code of Practice on Local Authorities Accounting) for incorporation into the final accounts for 2017/18.

2016/17 Statement of Accounts Audit

6. The 2016/17 Statement of Accounts was audited by Grant Thornton, appointed by the National Audit Office.
7. Overall officers and the external auditors were happy with both the audit process and the working relationship during the audit. Regular meetings throughout the audit were held so any finding could be fed back and worked through together. These meetings will be maintained for the 2017/18 closing process to ensure the process runs as efficiently this year.
8. The Council has a new Grant Thornton audit team this year, a new Audit Manager Trevor Greenlee and the Principal Auditor, Marc Chang. This team will be headed up by the Council's new Audit Lead; Ciaran T McLaughlin (Director).
9. Principal auditor Marc Chang has already been in the office conducting pre-audit testing and officers are confident that the transition will run smoothly.
10. Internally the accounts close-down process will be co-ordinated by Senior Accountant, Maria Hadfield, although this is the first time the remained of the team has not changed and the Head of Finance will still be overseeing the process.

Accelerated closedown and the Closing Timetable

11. Last year the accountancy team achieved the faster closedown target and following introduction of several measures to streamline the process, became the first Council to close its accounts in the Country. Following this success

the team are again looking at ways to ensure this target is as achievable as possible, further changes include:

- a. Bringing the Council's subsidiary company audit forward to fall in line with the early closing timetable
 - b. Material items within the accounts, i.e. housing rents, to be estimated using the last rent week in February and extrapolated to the 31 March.
 - c. Following introduction of the new automated asset register system the audit of capital has been brought forward to April to accelerate the audit process.
12. The Accounting Policies in Appendix A have been updated to reflect these changes.
 13. The target is to have a completed final draft by 25 May, key deadlines below:
 - a. Service Accounts and Collection Fund to be closed by 18 April
 - b. Balance Sheet Codes to be closed by 13 May
 - c. Draft Statement by 22 May

Going Concern Principle

14. The Council has set a budget for 2018/19 and has a medium term financial plan that demonstrates that the Council is a 'going concern' and will operate for the foreseeable future. As such the accounts will be prepared on this basis.

Accounting Changes/Updates for 2017/18

15. The Narrative Report will be prepared on the new principles based approach. The report will provide information on the Council's main objectives and strategies and the principle risks that it faces. Commenting on how the Council has used its resources to achieve the desired outcomes in line with its objectives and strategies.
16. This new approach will require the Narrative Report to be a commentary to the Statement of Accounts rather than formally part of the Statement of Accounts. This is an important distinction as the Narrative Report is then not covered directly by the statutory requirements for an audit opinion.
17. The Housing Revenue Account (HRA) will reflect the requirements of *The Item 8 Credit and Item 8 Debit (General) Determination*, which will see depreciation on dwellings and non-dwellings charged to the HRA in line with proper accounting practices, following removal of the transitional arrangements.
18. Reversal of impairment and revaluation losses on HRA dwellings and non-dwellings to the capital adjustment account will continue eliminating any impact to the bottom line for the HRA.

Looking ahead Accounting Changes

19. Looking beyond the next set of accounts there are further changes to the accounting standards that manage the accounting for Financial Instruments and Leases.
20. Fundamentally the lease change will see all leases recognised on the balance sheet where the Council is the lessee.

21. The introduction of International Financial Reporting Standard 9 (IFRS9) will see Councils' reclassify financial assets based on either a contract or business model basis. Further guidance is awaited for confirmation of the effect of this transition on the Comprehensive Income and Expenditure Account.

Next Steps in Process

22. There will be a Members training session and the presentation of the draft statement on 19 June, where any questions or issues from Members can be discussed with officers.
23. In July the Statement of Accounts will be submitted for signing to the Audit Committee and the external auditors audit findings will be presented.

Conclusion

24. Members are asked to note the changes to the final accounts process and approve the Accounting Policies in **appendix A**.

Portfolio Holder's Views

25. To be given at the meeting

Contact and Email

Maria Hadfield - Maria.hadfield@ashford.gov.uk

Accounting Policies

General Principles

The Statement of Accounts summarises the Authorities transactions for the 2017/18 financial year and its position at the year ending 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require being prepared in accordance with proper accounting practices. These practices primarily comprise the 'Code of Practice on Local Authority Accounting in the United Kingdom 2017/18' (the Code), supported by International Financial Reporting Standards (IFRS).

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

1. Accounting Concepts and Conventions

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

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

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

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

2. Accruals of Income and Expenditure

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

The accruals basis of accounting requires the non-cash effect of transactions to be reflected in the Statement of Accounts for the year in which those effects are experienced, and not in the year in which the cash is actually received or paid. In particular: fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services; interest payable on borrowings and receivable on investments is accounted

for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

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

3. **Estimation Techniques**

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

4. **Costs of Internal Support Services**

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

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

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

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

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

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

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

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

6. **Charges to Revenue**

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

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

Capital charges made to the Housing Revenue Account are the amounts as determined by proper accounting practices.

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

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

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

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

8. **Government Grants and Contributions**

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

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

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

9. **VAT**

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

10. **Heritage Assets**

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

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

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

12. **Intangible Assets**

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

An intangible asset is initially measured at cost but will be revalued where the fair value of the asset differs significantly from its carrying value. The

depreciable amount is amortised over its useful economic life to the relevant service line in the Comprehensive Income and Expenditure Statement but subsequently reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

13. **Investment Assets**

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

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

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

14. **Property, plant and equipment**

14.1. **Recognition**

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

14.2. **Recognition Definition**

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

The category is split into seven sub categories.

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

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

14.3. **Council dwellings**

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

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

14.4. **Other Land and Buildings**

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

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

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

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

14.6. **Infrastructure Assets**

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

14.7. **Community Assets**

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

14.8. **Assets under Construction**

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

14.9. **Surplus Assets**

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

14.10. **Valuations**

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

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

On revaluation, accumulated depreciation is written out.

14.11. **Depreciation**

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

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

14.12. **Impairment of Non-current Assets**

A review for impairment of a non-current assets, whether carried at historical cost or valuation, is carried out at year-end to ascertain whether events or changes in circumstances indicate that the carrying amount of the asset may

not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

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

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

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

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

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

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

15. Leases

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

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

15.1. Finance Leases

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

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

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

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

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

15.2. Operating Leases

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

16. Current Assets and Liabilities

16.1. Short term Debtors and Creditors

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

16.2. Impairment Allowance for Bad and Doubtful Debts

The figure shown in the Statement of Accounts for Debtors is adjusted for bad debts. This amount is to provide for debts that are unlikely to be collected in future years. The percentage used to reduce the Debtors figure is based on historical evidence of collection and management judgements.

17. Contingent Assets and Contingent Liabilities

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

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

18. **Short term and long term Provisions**

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

19. **Reserves**

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

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

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

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

20. **Employee Benefits**

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

20.1. **Benefits payable during employment**

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

Where considered of a material nature these are accrued.

20.2. Termination benefits including Exit Packages

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

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

20.3. Post-employment benefits

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

- Pension liabilities, attributable to the Council, are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees etc.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return.
- The assets of the pension fund attributable to the Council are included on the Balance Sheet at their fair value:
 - Quoted securities – current bid price;
 - Unquoted securities – professional estimate;
 - Unitised securities – current bid price;
 - Property – market value.
- The change in net pensions liability is analysed into five components:
 - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service where employees worked.
 - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
 - Net interest on the net defined benefit liability (asset) – the change during the period in the net liability (asset) that arises from the passage of time. This is debited/ (credited) to the Financing and Investment

Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

- Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or actions that reduce the expected future service or actuarial benefits of employees - debited to the net cost of services in the Comprehensive Income and Expenditure Statement as part of the Non Distributable Costs.
- Actuarial Gains and Losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the assumptions have been updated - debited to the Comprehensive Income and Expenditure Statement.

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

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

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The latest formal valuation of the Kent County Pension Fund was at 31 March 2016 and changes to contribution rates as a result of that valuation did take effect on 1 April 2017.

21. Financial Instruments

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

Detailed disclosure of the Council's holding of Financial Instruments is included in the note to the accounts.

21.1. Financial Liabilities

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

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

21.2. Financial Assets

Financial assets are classified into two types:

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

21.3. Loans and Receivables

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

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

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

21.4. Available-for-sale Assets

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

Values are based on the following principles and are given a 'fair value level' based on the accuracy of the valuation (Level 1 being the most reliable estimate):

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than those quoted prices that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated credit worthiness

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

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

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

21.5. **Financial Instrument Risk**

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

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

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

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

These disclosure requirements are equally applicable to outstanding debtors, see note to the accounts for an analysis of debtors. In addition to this, a provision for bad debts is also included in the Statement.

22. **Cash and Cash Equivalents**

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

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

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

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

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

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

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

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

24. **Group Accounts**

Group Accounts will be prepared in accordance with IFRS 10 (consolidated financial statements) and IFRS 12 (disclosure of interest in other entities), where it is considered that the Council has a material interest in subsidiaries.

Where applicable the following principles will be followed:

Basis of Consolidation

Group Accounts will be prepared on the basis of a full consolidation of the financial transactions and balances of the Council and a relevant subsidiary. Any gains and losses arising from a subsidiary will be fully reflected in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement and Cashflow Statement within the Group column.

Accounting Policies

Group Accounts will be prepared using consistent accounting policies where possible, where there are conflicting policies with IFRS requirements then the requirements of the Code of practice for Local Authority accounting will be adopted for consolidation purposes.

Where Intra-group charges occur they will be removed during consolidation of the accounts

Whether to group account is determined by Qualitative and Quantitative materiality, therefore when considering whether to group not only the values are relevant, the interest to all stakeholders is also taken into account.

25. Exceptional Items and Prior Year Adjustments

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

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

26. Events after the Balance Sheet Date

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

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

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

Events after the Balance Sheet date should be reflected up to the date when the Statement of Accounts is authorised for issue as per the approved policies by the council.

AUDIT COMMITTEE

20th March 2018

RISK MANAGEMENT FRAMEWORK UPDATE - PRESENTATION

Charlotte Hammersley will deliver a presentation on the Risk Management Framework.

This page is intentionally left blank

Agenda Item 7



Agenda Item No: 7
Report To: Audit Committee
Date of Meeting: 20 March 2018
Report Title: Annual Governance Statement – Progress on Remedying Exceptions
Report Author & Job Title: Lorna Ford, Head of Corporate Policy, Economic Development & Communications
Portfolio Holder Cllr. Shorter
Portfolio Holder for: Finance & IT

Summary: This report updates on the progress made towards the areas of review highlighted by the 2016-2017 Annual Governance Statement

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: Lorna.Ford@ashford.gov.uk (01233 330413)

Report Title: Annual Governance Statement – Progress on Remedying 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 2016-2017 Annual Governance Statement (AGS) was agreed by the June 2017 meeting of the Audit Committee and identified three areas for continued work and review -

Governance Area	Responsible Department	To be delivered by
Modern.Gov	Legal and Democratic Services	March 2018 (as set out in PID)
Peer Challenge	Directors / Management Team	January 2018
Compliance with the Transparency Code	Corporate Policy and Performance	March 2018

3. This report updates on the progress made towards these areas of review highlighted by the 2016-2017 Annual Governance Statement.

Purpose of this report

4. To update on the progress made towards the areas of review highlighted by the 2016-2017 Annual Governance Statement, and builds upon a similar update provided to the December 2017 meeting of the committee.

Progress to Date

Modern Gov

5. The system is now live on both the Council intranet and website, with documents for all meetings uploaded via Modern Gov as standard. The previous in-house system (covering former committees not listed on Modern

Gov) remains active on both the intranet and website whilst historic agendas are uploaded to the system.

Peer Challenge

6. Peer challenge is a process by which a small team of senior councillors and officers from other local authorities are invited to look at the council's systems, processes and outcomes, and to make recommendations about what might be further reinforced or improved. Just over two-thirds of councils have commissioned a peer challenge.
7. Following discussions with the LGA over their availability, a **Corporate** peer challenge is scheduled for the week commencing the **16th April 2018**. The review will be carried out to the Council's specification – focussing on what is of most importance to Ashford.
8. Accordingly, the peer challenge with focus on areas including leadership, governance, corporate capacity and financial resilience. The peer challenge team will be in situ for 3-5 days, including meetings with political leaders, senior managers and discussion groups including with staff and partners.
9. A second, **service-based** peer challenge took place on **14th-16th February 2018**, with a focus on **Planning**, specifically –
 - a. The enforcement function
 - b. The balance of resources
 - c. Joint working between policy and development teams
 - d. Joint working between the council and external partners
 - e. Customer satisfaction

Compliance with the Transparency Code

10. Compliance with the Code is an ongoing item of the council's operations, and as noted in the previous update a four-way best practice governance audit¹ - whilst confirming that no fundamental improvement was needed to the council's transparency arrangements - did highlight a small number of areas with partial compliance. This was either due to out of date information, or information being partially published.
11. Efforts continue with the relevant departments to close these gaps. The table below summarises the progress made on each identified area following the review. It should be noted that as some of this data is published annually (i.e. by the end of each financial year) the overall due date for closing this governance exception is March 2018 –

Area	Reason for not being fully compliant	Progress (to March 2018)
Procurement –	Information does not include all	Findings have been

¹ conducted across the Mid-Kent Audit Partnership

Tenders & Contracts	required fields	discussed with Procurement Officer; as contracts are renewed, the additional information will be sourced and uploaded
Local Authority land	Information not uploaded	Information has been uploaded to the Council's website
Grants to voluntary and community organisations	Whilst Information already available through financial records, the audit review recommended that a separate list be created	New list template has been agreed, is currently being populated and will be published for the 2017/18 reporting period onwards
Fraud	Information out of date	Information updated
Social Housing	Information out of date	Findings have been discussed with the relevant officer, and the information is currently being updated

Conclusion and Next Steps

12. Work is still required in each of the three areas identified in the AGS in order to complete the areas of further governance work identified. This is to be expected – being the second quarterly update against the council's compliance (and still in advance of each area's 'to be delivered by' date).
13. As such, a further update on each area will be provided at the next quarterly update.

Contact and Email

14. Lorna Ford, Head of Corporate Policy, Economic Development & Communications
15. Lorna.Ford@ashford.gov.uk

AUDIT COMMITTEE

20th MARCH 2017

INTERNAL AUDIT CHARTER

The Charter sets out the local context for audit, including independence safeguards. At this Council, the Audit Committee approved the Charter in 2016 and it remains in place.

Rich Clarke will deliver a presentation on the Internal Audit Charter.

This page is intentionally left blank



Agenda Item No: 9
Report To: Audit Committee
Date of Meeting: 20 March 2018
Report Title: Internal Audit & Assurance Plan 2018/19
Report Author & Job Title: Rich Clarke – Head of Audit Partnership

Summary: This report sets out the proposed plan for Mid Kent Audit's work at Ashford Borough Council during 2018/19. Furthermore, it provides an overview of the range of areas for potential future examination by Internal Audit. It is based on the outcomes of risk assessments and consultation, and considers the resources available to the partnership.

Key Decision: NO

Significantly Affected Wards: All

- Recommendations:**
1. That the Audit Committee **APPROVES** the Internal Audit & Assurance Plan for 2017/18.
 2. The Committee **NOTES** the view of the Head of Audit Partnership that the plan sets out sufficient resource to complete a work programme leading to a robust Head of Audit Opinion.
 3. The Committee **NOTES** the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management.

Policy Overview: The Public Sector Internal Audit Standards (the "Standards") require an audit service to produce and publish a risk based plan, at least annually, for approval by Members. The plan must consider input from senior management and Members.

Financial Implications: The work programme set out in the plan is produced to be fulfilled within agreed resources for 2018/19 and so makes no new resource requests.

Legal Implications: The Council is required by Accounts & Audit Regulations to operate an internal audit service, including agreeing a plan at least annually (as described in the appendix). Therefore the Council must approve an internal audit plan to maintain regulatory conformance.

Risk Assessment: The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn increased

involvement in risk management will allow audit findings to provide feedback on the identification, management and controls operating within the risk management process.

Equalities Impact Assessment:

No direct implications

Other Material Implications:

N/A

Exempt from Publication:

N/A

Background Papers:

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). It also draws on information from 2017/18 Audit Plans published across the local government sector, each available through the committee papers pages of individual authorities. Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings with officers and Members, can be made available on request.

Contacts:

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

Report Title: Internal Audit & Assurance Plan 2018/19

Introduction & Background

1. The Standards set out the requirements that a Head of Audit must meet in setting out the plan. We extract relevant sections from the Standards in the appendix to this report.
2. Furthermore, the Standards explicitly direct that Head of Audit must keep the plan flexible and responsive to emerging and changing risks across the year.
3. Please note that the Standards have not been updated this year with respect to the purpose and scope of the Internal Audit Charter. Therefore the Charter approved by this Committee in March 2016 remains current and does not require review and update for 2018/19.

Purpose of this Report

4. This report is provided to allow the Committee to consider and approve the Audit & Assurance Plan 2018/19. It sets out the proposed audit work, comprising both assurance rated projects and other work. The Audit Partnership undertakes this work to support assessing the Council's internal control, risk management and corporate governance.

Other Options Considered

5. The Standards mandate compiling a risk based plan for management comments and Member approval. Although by convention that plan is presented annually around the start of the financial year, the Standards do not specifically require that action. The Council could, potentially, move to a shorter planning cycle which would allow more flexibility for responding to risk. There are other examples of authorities that take a similar approach.
6. However, that move would strike against a practice considered to work well, and one which allows a degree of certainty to resource requirements that helps ensure stability in a service spread across four authorities.
7. The Standards do not mandate any specific work for the plan, so its content is at the discretion of the internal audit provider (subject to the comments of management and approval of Members) and have an enormous range of possibilities with respect to the areas that could be examined. The attached document represents the currently proposed responses to the risks assessed at the Council.

Consultation

8. We circulated an initial draft to Heads of Service and Directors across the four authorities (and including Heads of Shared Services) in January ahead of individual meetings to discuss proposed projects in their areas. Those meetings have now taken place and the attached represents an adaptation of the original draft reflecting comments received.

Conclusion and Next Steps

9. The appendix to this report sets out the 2018/19 audit plan in fulfilment of the Standards. If the plan is endorsed as outlined, the next step will be for us to write to each Head of Service to communicate the audit projects in their service areas for the year.
10. We will continue to consider and, where necessary, reflect in the plan responses to changes in the Councils' risks and priorities. Progress against the plan will be reported to Members midway through the year.

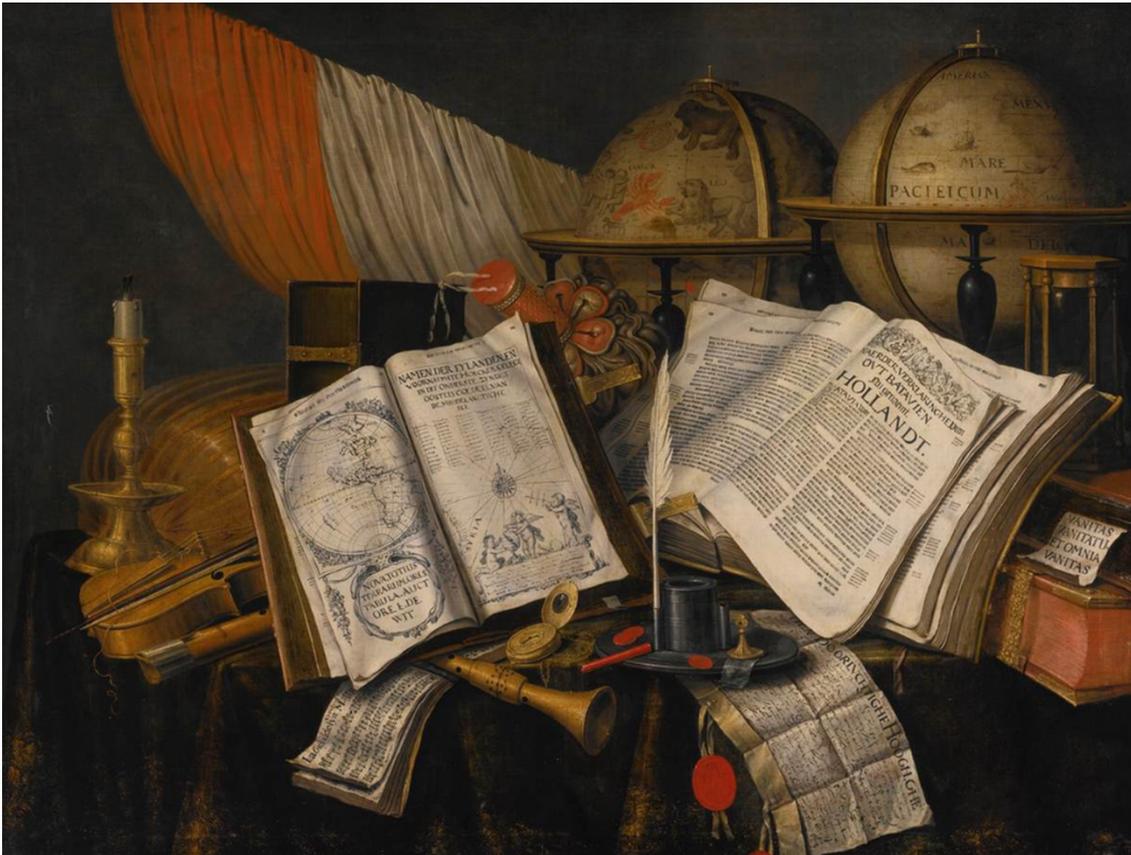
Portfolio Holder's Views

11. The portfolio holder with responsibility for audit is a member of this Committee and was consulted as part of the planning process.

Contact & Email

12. Rich Clarke – Head of Audit Partnership
Tel: 01233 330442
Email: rich.clarke@midkent.gov.uk

Internal Audit & Assurance Plan 2018/19



Ashford Borough Council



MID KENT AUDIT

Introduction

1. We provide an independent and objective assurance and consulting service designed to add value to and improve the Council's work. We help the Council achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance.
2. We work within a statutory framework drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the "Standards"). In 2015 the Institute of Internal Audit assessed us as working in full conformance with the Standards. We have kept full conformance since then, including through the major update to the Standards in 2017.
3. We also work to an [Audit Charter](#) agreed at each partner authority. The *Charter* sets out the local context for audit, including independence safeguards. At this Council, the Audit Committee approved the Charter in 2016 and it remains in place.
4. The Standards set out demands on the Head of Audit Partnership for compiling and presenting a document to describe planned work for the year ahead. The plan, presented for Member approval, must set out:
 - Internal audit's evaluation of and response to the risks facing the organisation.
 - How we consult with senior management and others.
 - How we have considered whether we have suitable resources to address the risks we identify.
 - How we will effectively use those resources to complete the plan.
5. The Plan can include assurance and non-assurance rated engagements. This means we can accept consultancy work where this is the best way to support the Council. We set out our considerations for accepting consultancy engagements in the *Audit Charter*.
6. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of inevitably limited resources. In approving the plan, the Committee recognises this limit. We will keep the Committee abreast of any changes in our assessment of need as we oversee the risks posed to the Council. In particular we will undertake a full evaluation of need during each annual planning round.

MID KENT AUDIT

Risk Assessments

7. The Standards direct us to begin our planning with a risk assessment. This assessment must consider risks to the Council from global changes as well as those recognised within its own risk management. We must also keep that risk assessment current. This plan represents our appraisal now, but we will continue to reflect and consider responses as risks and priorities may change across the year. We will report a specific update to Members around midway through the year. We may also consult the Committee (or its Chairman) on other significant changes if the need arises.

Global and Sector Risks

8. In considering global and sector risks we draw on various sources. This includes updates provided by relevant professional bodies, such as the IIA and CIPFA. We also consult with colleagues both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South East.
9. These sources give us insight into both the key issues facing local government and how audit teams respond. To show our consideration of these global risks we've picked the issues below from the [IIA Hot Topics in Internal Audit 2018](#).



GDPR

The Risk

May 2018 will see the largest expansion of data protection law for 20 years. The General Data Protection Regulations (GDPR) place new limits on using and sharing personal information, including new requirements on informed consent. The maximum penalty for breach also increases significantly, with [one report](#) estimating the £400k fine for TalkTalk in 2016 would be closer to £60m as a GDPR breach.

Ashford Context

The Council manages significant volumes of personal data while delivering services. It will need to make sure it has a clear understanding of where and how it holds, manages and processes data. The Council will also need a clear method for prompt breach reporting.

MID KENT AUDIT

We also note that the Council's most recent Data Protection work (in 2015/16) offered only 'weak' assurance, although the Council has worked to implement our recommendations.

Mid Kent Audit Response – GDPR

On our 2018/19 plan we propose a 4-way review to look across all four partner authorities around 6-9 months after implementation. Rather than seeking to provide a rating, we will instead look at the common challenges faced by the authorities and effectiveness of responses. We will aim to include a full authority-specific assurance rated review in our 2019/20 plan.



CYBERSECURITY

The Risk

The Wannacry cryptoworm attack that hit more than a third of NHS Trusts in May 2017 brought into focus vulnerability from malign online actors. Although there was no direct financial loss, the NHS estimated it cancelled nearly 7,000 appointments as a direct result. A National Audit Office report also later highlighted various IT control failures that could have stopped or limited the attack.

Ashford Context

The Council actively encourages residents to use electronic communications and so sees more and more of its work online. It currently holds ISO certification, Public Sector Network Code of Connections (CoCo) compliance and successfully repels dozens of attempted attacks each day. However, it is clear the potential disruption of an attack would be significant, including on the Council's ability to maintain communications and make payments.

Mid Kent Audit Response

We are aware that increasingly the complexity of controls demands specialist audit skills to provide assurance on their efficacy. Longer term, we will seek to grow those skills in-house. But for the 2018/19 plan we have a proposed project that will call on specific IT audit expertise through the competitive rates available to us as a partner in local and regional framework contracts.

MID KENT AUDIT



POLITICAL UNCERTAINTY

The Risk

In themselves, Brexit and the UK Government's re-examination of local authority funding are not necessarily risks. But they could affect the Council's funding, powers and responsibilities as well as the broader economy. However, the key phrase there is "could". While that doubt exists, organisations will need to be as agile and flexible as possible in their planning.

Ashford Context

The Council has already taken some opportunities arising from Government reviews, such as joining the Kent & Medway Business Rates Retention Pilot. However, the success of such pilots and much of the Council's other plans depends on the wider economy.

Mid Kent Audit Response

Owing to this uncertainty, we do not have specific projects on the 2018/19 plan looking at Brexit and other regulatory changes (but we do have the issue on our radar, see appendix I). Instead, we will continue to focus efforts on supporting the Council in keeping an effective risk register that will allow it to properly identify risks and opportunities as they come into focus.



VENDOR RISK

The Risk

The recent collapse into administration of Carillion and profit warnings at Capita highlights the extent to which public services have become increasingly reliant on private delivery. These create third party risks where organisations learn they have not transferred the risk as well as the service. Sound and continuing diligence and well-managed supplier relationships are crucial to ensuring success.

MID KENT AUDIT

Ashford Context: Vendor Risk

The Council runs significant parts of its service through third parties. For example Biffa for its waste collection.

Mid Kent Audit Response: Vendor Risk

Our audit universe (see Appendix I) includes periodic review of all the Council's major contractual relationships. Specifically, we are undertaking a general review of contract management this year which will inform our future planning. We also plan to examine the Council's management of its Waste Contract.



WORKFORCES: PLANNING FOR THE FUTURE

The Risk

Organisations must think more strategically about their workforce planning. Driven by financial restraints, changing demographics and increased automation and use of technology, organisations must consider how they can effectively hold the skills and experience they need to deliver their objectives.

Ashford Context:

The Council continues to develop its Strategic plan, asking more of its people to deliver important projects and maintain high quality delivery. At the same time, we have seen the Council has had challenges in maintaining corporate memory and focus through restructures, as evident through some of our governance work in recent years.

Mid Kent Audit Response:

We have a review of workforce planning scheduled for 2018/19 that will examine the strategic view in evaluating and meeting personnel need.

MID KENT AUDIT



EVOLVING THE INTERNAL AUDIT

The Risk

The new Public Sector Internal Audit Standards in April 2017 placed greater emphasis on the role of internal audit in understanding and providing assurance against a wide range of corporate risks. The traditional view of audit as a branch of accounting is disappearing under standards that demand more familiarity with governance, analytics and effective communication of audit findings to provide valuable business insight.

Mid Kent Audit Response

Our Quality and Improvement planning considers the skills we need now and in the future, including the IT audit specialism noted above. We are also increasingly looking at ways to efficiently expand the range, scope and effectiveness of our coverage. To that end we are looking to get more up-to-date audit software, which will support efforts to create standard testing templates, support audit work and improve efficiency, monitoring and reporting.

Local Risk Review

10. The Council keeps a strategic register describing the most significant risks it faces. Risks on the corporate register align direct to the Corporate Plan and have a more strategic outlook.
11. Our audit planning considers these issues to ensure we provide risk-based assurance to the Council. While not the sole plan driver, we aim to ensure our audit projects and wider work includes coverage of the risks featured on the corporate register.
12. The table on the following page shows each of the risks on the strategic register, with relevant audit work either recently completed or planned over the next two years.

MID KENT AUDIT

Risk Register Item	Residual Risk Rating		Relevant Planned Audit Work
	Impact x Likelihood	Grade	
Key Project Failure	5 x 2	10 (Amber)	Audit Reviews Project Management (17/18) Non-Assurance Work Consultation and review of specific project plans and progress
Resource Limitations	3 x 3	9 (Amber)	Audit Reviews Financial Management (17/18) Business Rates (19/20) Asset Management (18/19)
Organisational Skills & Capacity To Deliver	3 x 2	6 (Amber)	Audit Reviews Recruitment (17/18) Workforce Planning (18/19) Non-Assurance Work Member Development
Housing & Infrastructure	3 x 2	6 (Amber)	Audit Reviews Developer Contributions (18/19) Strategic Planning (19/20)
Reputation	3 x 2	6 (Amber)	Audit Reviews Social Media (16/17) Public Consultations (19/20)
Collaborative Working	4 x 1	4 (Green)	Audit Reviews Social Media (16/17) Public Consultations (19/20)
Community Capacity	4 x 1	4 (Green)	Audit Reviews Community Grants (17/18)

13. We provide risk management support for the Council. This work includes regular liaison with risk owners and the Council's policy team. Therefore, for all risks, we will continue to support risk owners and review progress.

Audit Risk Review and Consultation

14. We then consider all the auditable parts of the Council (the "audit universe") against our own risk evaluation criteria. These consider:



Finance Risk: The value of funds flowing through the service. High value and high volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.

MID KENT AUDIT



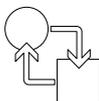
Priority Risk: The strategic importance of the service in delivering Council priorities. For example building control will be higher risk owing to the direct link with the Council's objectives around quality housing.



Fraud Risk: The susceptibility of the service to fraud loss. High volume services that deal direct with the public and handle cash, such as licensing for example, are higher risk.



Oversight Risk: Considering where other agencies have an interest in regulating and inspecting the service. For example, individuals within legal services fall within the scope of the Solicitors Regulation Authority, making legal services lower risk.



Change Risk: Consider the extent of change the service has been, or will be, undergoing. This might be voluntary, such as a restructure or imposed such as new legislation.



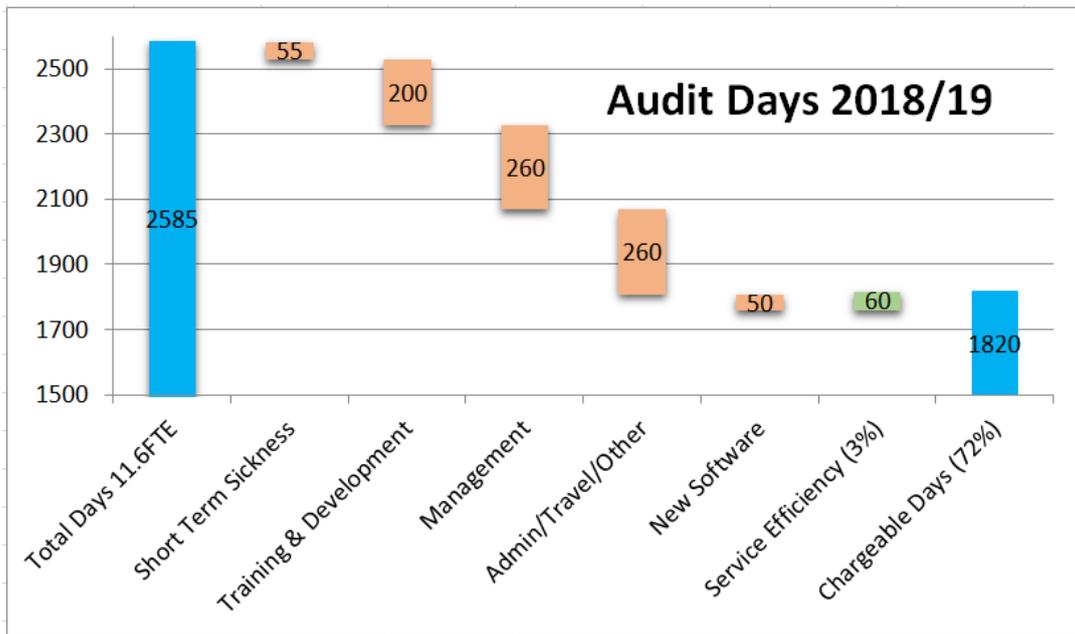
Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.

15. The results of these various risk assessments provide a provisional audit plan. We then take this provisional plan out to consultation. We meet every Head of Service, Director and the Chief Executive to get their perspective on our assessment and give us updates on their sections.
16. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.

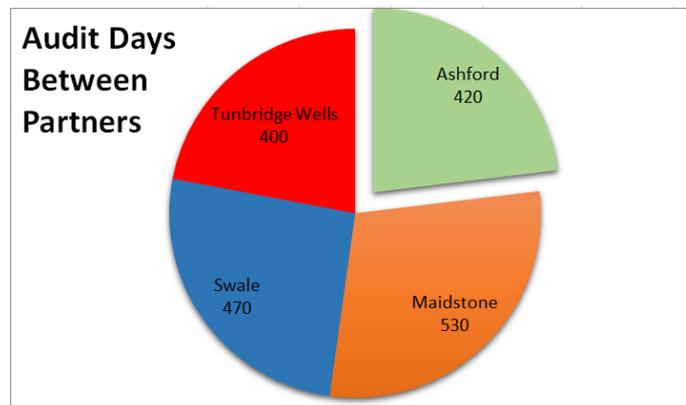
MID KENT AUDIT

Resources

17. The audit team contains 11.6 FTE plus a 0.6 FTE administrator. To calculate the total amount of resources available we take the full time available (less contractual leave and public holidays) and subtract various categories of non-audit time, such as training. Then we add back known positive changes, which include our annual aim to make the service at least 3% more efficient each year by refining our working practice. We set out that calculation in the chart below.

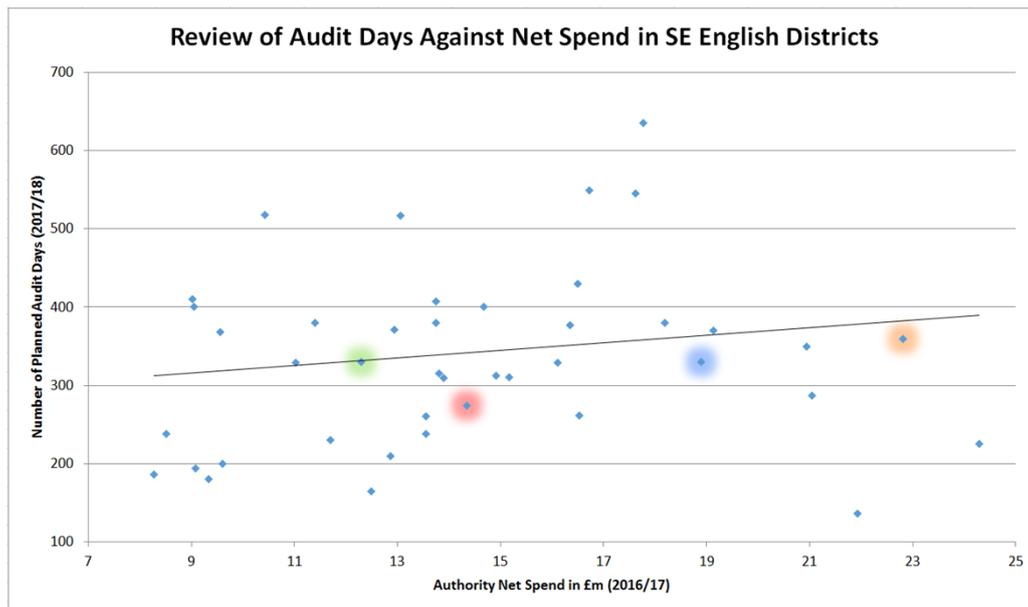


18. The result is 1,820 chargeable days, meaning time we can put towards completion of our agreed audit plans. This is essentially the same as in 2017/18 and divides between the authority partners in the proportions set out in our collaboration agreement:



MID KENT AUDIT

19. Audit Standards demand we assess whether the resources available – in both quantity and capability – can fulfil our responsibilities. In that assessment we must consider:
- Whether we had sufficient resource to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation’s risk appetite and profile have changed.
 - How the organisation’s control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
20. Based solely on those internal reasons, we believe we have enough resource to deliver the 2018/19 plan. There is no precise guidance on overall adequacy of internal audit resource. Besides the reasons above we also analyse other SE English District Councils to consider a ‘typical’ volume of audit coverage. The graph below presents that survey and a ‘best fit’ line (noting that we have excluded some extreme outliers on the higher end). We highlight the Mid Kent partner authorities.



21. We must also consider ability of the audit team. Appendix II sets out the significant range of skills, qualifications and experience we have within the audit team.
22. As noted in the risk assessment, we are looking to increase our means on technical IT audit. For 2018/19 we aim to supplement the team with technical

MID KENT AUDIT

support accessed at competitive market rates through new memberships of Framework agreements with audit firms managed by LB Croydon and Kent CC.

Proposed Audit & Assurance Work 2018/19

23. Our audit project work comes in two distinct approaches; those that lead to assurance ratings and those that do not. We usually provide a rating as shorthand to describe our findings and the assurance that we can offer. See Appendix IV for the definitions and different levels. However, we recognise circumstances where our work aims principally at supporting work in progress, or providing advice where an assurance rating is not right. We complete full reports for each type and will provide summaries in our reporting to Members.
24. We also undertake various other reviews and advice tasks over the year. However, we usually do not separately report work that takes under 5 days to complete or does not result in a single distinct report. For example, our work supporting the Council's risk management.
25. In the tables below we set out our planned work for 2018/19. We also provide our planning objectives for each project, setting out in more detail the intended scope for each review. However, we will agree a precise scope with the officer *Audit Sponsor* when we come to undertake the work. See the next section of this report for information on how we complete detailed planning on audit projects and work towards their completion.

Proposed Audit & Assurance Project Work 2018/19	310 days
CHIEF EXECUTIVE	
Assurance Rated Projects	
Risk Management	
<ul style="list-style-type: none"> • To review compliance with the Council's Risk Management Framework. • To consider the effectiveness of the Council's strategic and operational risk management processes. 	
Performance Management	
<ul style="list-style-type: none"> • To assess the processes for monitoring and reporting performance. • To review the effectiveness of service planning processes. 	
DIRECTOR OF FINANCE & ECONOMY	
Assurance Rated Projects	
Budget Setting	
<ul style="list-style-type: none"> • To consider effectiveness and appropriateness of the Council's approach to setting and agreeing budgets. 	
Investments & Borrowing	

MID KENT AUDIT

- To review the Council's borrowing and investment strategies, excluding compliance with the Treasury Management Strategy (which was audited in 2017-18).

Assurance Rated Projects (continued)

Property Management

- To evaluate the arrangements for the maintenance and repair of the Council's properties.
- Income management arrangements will be excluded as audited in 2017-18.

Garage Management

- To evaluate the arrangements for the maintenance and repair of Council owned garages.
- To review the effectiveness of income collection and financial management.

Right To Buy

- To review the controls for assessing and processing Right to Buy applications.
- To evaluate the methodology for the use of Right to Buy funds for investment in affordable housing.

Leaseholder Charges

- To review the arrangements for the administration and collection of leaseholder charges.

Voids Management

- To review the effectiveness of the arrangements for the management of void properties.

Cyber Security

- Using externally gained IT audit expertise, to consider effectiveness of the Council's measures to mitigate the risk and impact of cyber attack.

Council Tax Reduction Scheme

- To review operation of controls for ensuring compliance with the Council's scheme.
- To review use and reporting of the Council's power to levy fines for non-reporting of changes in circumstance.

Non-Assurance Rated Projects

Homelessness Reduction Act

- To consider across the four partner authorities varying challenges and approaches to the Homelessness Reduction Act.
- The aim of our review will be to identify and share best practice and successful approaches.

DIRECTOR OF PLACE & SPACE

Assurance Rated Projects

Waste Contract

- To review contract management controls.
(We will conduct this review across Swale, Maidstone and Ashford as partners in the contract).

Developer Contributions

- To consider the effectiveness of the processes for putting agreements in place.
- To evaluate the management and recording of developer contributions.
- To review the arrangements for the management and monitoring of the release of funds.

MID KENT AUDIT

Pre-Application Planning Advice

- To review the effectiveness of the operation of the pre-application planning advice service.
- To evaluate the income management arrangements.
- To establish adherence to relevant ethical standards.

Litter Enforcement

- To review the effectiveness of contract management arrangements.

Assurance Rated Projects (continued)

Safeguarding

- To review the Council's processes for fulfilling its' safeguarding responsibilities.

DIRECTOR OF LAW & GOVERNANCE

Assurance Rated Projects

Complaints

- To review the appropriateness of the Councils' complaints policy and processes.
- To assess compliance with the Council's complaints policy.

Workforce Planning

- To review the Council's strategic response to ensuring it has appropriate skills and capacity to pursue its objectives.

Food Safety

- To identify and evaluate procedures for registration and approval of food premises.
- To document and evaluate the process for implementing the food hygiene rating scheme.
- To identify and evaluate procedures for complaints and enforcement.

Health & Safety

- To establish and evaluate the health and safety policies and procedures.
- To review the arrangements for ensuring compliance with health and safety requirements.

Parking Income

- To establish and evaluate the controls over the secure collection, reconciliation and banking of car parking pay and display income.
- To establish and evaluate the arrangements in place to monitor car parking income.

Non-Assurance Rated Projects

General Data Protection Regulations

- To consider across the four partner authorities varying challenges and approaches to carrying out GDPR including areas of non-compliance.
- The aim of our review will be to identify and share best practice and successful approaches. We will undertake an assurance rated review at each authority in 2019/20.
- (We will complete this review six to nine months after the go live date of GDPR in May 2018)

MID KENT AUDIT

Proposed Audit & Assurance Non-Project Work 2018/19	80 days
Risk <ul style="list-style-type: none"> To continue supporting the Council in managing and reporting its strategic and operational risks. 	
Counter Fraud <ul style="list-style-type: none"> To act as an outlet for complaints raised under the Council's whistleblowing policies. 	
Member Support <ul style="list-style-type: none"> To report audit progress to Committee and provide further advice and support as needed. To deliver, on request, Member briefings and training workshops on matters related to audit and governance. 	
Non Project Work (continued)	
Recommendation Follow Up <ul style="list-style-type: none"> To follow-up all agreed recommendations on time to ensure effective action to address our findings. To report on progress and provide further reporting where necessary. To provide support on implementation, including drawing on best practice from other authorities in the partnership. 	
Audit Planning <ul style="list-style-type: none"> To keep our audit planning under review, ensuring its continued relevance. To compile and report an audit plan for 2019/20. 	
Proposed Unallocated Contingency 2018/19	30 days
Consultancy <ul style="list-style-type: none"> We aim to keep around 10% of audit days as a consultancy fund to provide general and extra advice to the Council. This will include attendance and contribution to officer groups and expansions to audit scopes to cover particular concerns or interests. It will also cover a specific post-implementation review of the EP action plan. It also covers any investigative work we undertake. 	

MID KENT AUDIT

Delivering the Audit & Assurance Plan

26. We work in full conformance with the Public Sector Internal Standards. This includes having an internal quality assessment approach comprising both specific review of individual projects and period 'cold review', looking back at completed work and taking forward learning to help us improve.
27. The diagram below sets out how we undertake a typical audit project. However, with each piece of work, we discuss and agree a specific workflow with an officer contact we call the *Audit Sponsor* (typically, the Head of Service).

MID KENT AUDIT

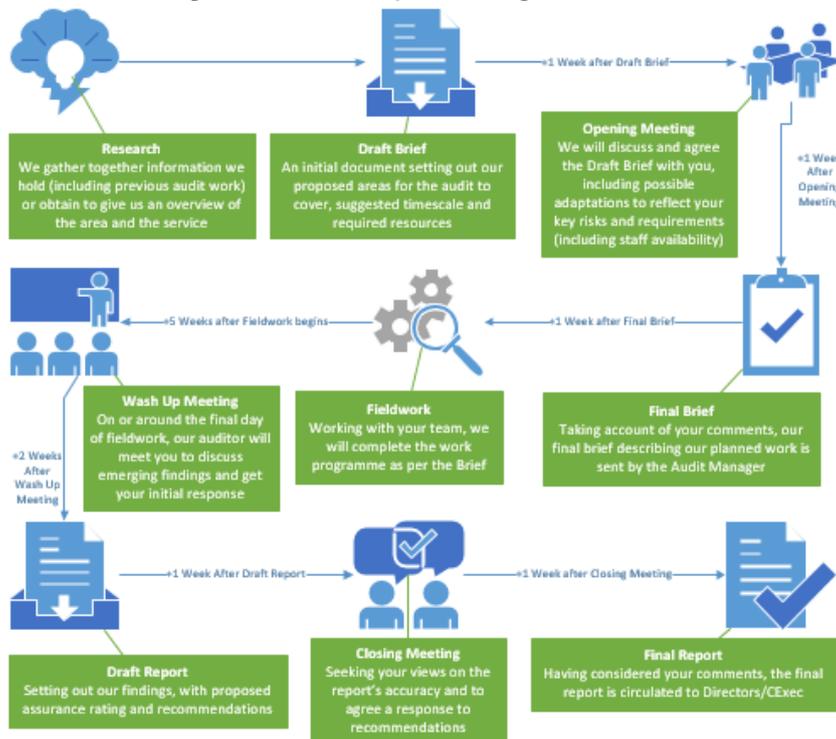
Mid Kent Audit

Ashford: April 2016

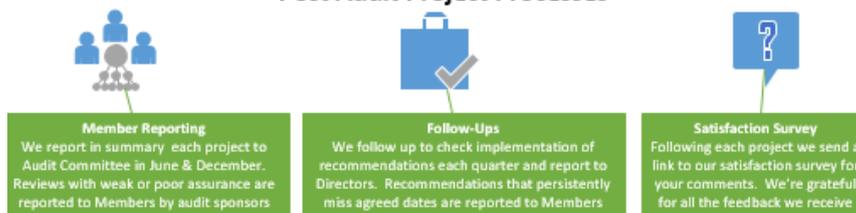
Audit Project Process Map

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



Overseeing Delivery

28. We will report progress on delivering the plan to this Committee part-way through the year. We are also overseen by a Shared Services Board, with Ben Lockwood (Director of Finance & Economy) as Ashford's representative.
29. We also report each month on various performance indicators detailing our progress. We include a listing of those indicators, with descriptions, at appendix III to this plan.

Quality & Improvement Plan

MID KENT AUDIT

30. Although in 2015 the IIA assessed us as fully conforming with the Standards, we have continued to challenge and update how we work. Milestones included a revision to our audit manual in 2016 (and updated after refreshed standards in 2017) and a restructure to add an administrator to the team and focus our auditors on chargeable work. Through these types of review we have kept our full conformance with the Standards and increased productive days by nearly 15% since 2015 without any more than inflationary budget increase.
31. For 2018/19 our focus will be on successful implementation of our new Audit Management Software. We decided in late 2017 to test the market, having used our current software in various forms since 2001. We tested various alternatives, all of which have new and better features and a cost saving.
32. Our evaluation continues but we will know the result before the Committee meets and working towards implementation. The precise benefits will depend on which product we select, but some of the benefits we looking for include:
 - Greater capacity for template and re-usable audit programmes to aid efficiency.
 - Improved reporting, especially on recommendation progress.
 - Better integration with and support for the Council's risk management work.
 - Greater ability to document and oversee the full scope of the audit universe.
 - Automation of performance information and thematic reporting.
33. In 2018/19 we will also continue our strong support for training and development within the audit team. During the year we will have five people furthering or completing (we hope) professional qualifications and we wish them every success. We will also continue supporting broader development, including in IT auditing, investigation support, data analytics and risk management.

MID KENT AUDIT

Appendix I: Audit Universe

The “Audit Universe” is our running record of all services at the Council we might examine. The list below shows its current arrangement including details of previous and planned future reviews. Note that future reviews past 2018/19 are provisional; we will undertake a fresh risk assessment each year.

MID KENT AUDIT

Director	Service Area	Auditable Areas	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Chief Executive	Policy, Economic Development & Communications	Policy	Corporate Governance								N/A	N/A	Cnc			Plan			
			Risk Management								Cnc				Plan				
			Performance Management			Lim										Plan			
			Equalities										So					Plan	
			Project Management										N/A		Plan			Plan	
		Economic Development									Cnc					Plan			
		Communications	Communications & Marketing														Plan		
			Public Consultations														Plan		
			Social Media											So				Plan	
		Director of Finance & Economy	Finance	Accounting	Treasury	Lim		Sub		Sub	Cnc				So	Plan			
Cash & Bank	Lim					Cnc		Sub	Cnc	Lim			So				Plan		
Creditors	Lim				Lim	Sub	Sub	Cnc	Sub	Sub	Cnc			So			Plan		
Debtors	Lim				Lim	Hi	Cnc	Sub	Cnc	Sub			So		Plan				Plan
Budgetary Control	Sub					Cnc	Hi							So		Plan			Plan
General Ledger	Cnc			Lim			Cnc	Cnc	Sub			Str	So				Plan		
Revenues & Benefits	Benefits			Lim	Sub	Lim	Sub	Cnc	Cnc	Hi	Str				Str		Plan		
	Council Tax			Hi	Sub	Cnc	Cnc	Sub	Hi	Sub	Str			Str				Plan	
	Ctax Reduction Sc																Plan		
Business Rates	Hi			Cnc	Sub	Sub	Cnc	Cnc	Sub	Str	So	Str				Plan			
Insurance						Sub								Plan					
Information Technology	IT Service		ICT Service				Cnc	Cnc	Sub	Cnc						Plan			
			Technical Support									So					Plan		
			IT Development & Procurement											So				Plan	
	Cyber Security		ICT Disaster Recovery	Lim								Wk		So				Plan	
		ICT Security	Lim	Lim		Lim							So		Plan		Plan		
GIS									Str							Plan			
Counter Fraud												N/A				Plan			
Audit	External Quality Assessment								N/A	N/A					Plan				

MID KENT AUDIT

Director	Service Area	Auditable Areas	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Director of Finance & Economy	Housing	Landlord	Repairs & Maintenance	Sub	Lim		Sub			Cnc	Str		N/A		Plan				
			Voids Management			Sub									Plan				
			Electrical DSO												So				Plan
			ABC Lettings												So				Plan
			Right To Buy													Plan			
		Homelessness	Housing Allocations					Cnc	Sub		Sub					Plan			
			Homelessness		Cnc	Sub				Cnc	Str			Plan		Plan			
		Housing Finance	Rent Accounting	Sub	Cnc		Sub		Sub		So			Str		Plan			
			Home Improvements Grants					Sub						Plan				Plan	
		Corporate Property & Projects	Property Management	Property Management Income			Lim			Cnc		Cnc	Wk			Plan			
	Garage Management														Plan				
			Procurement & Projects	Asset Management							Cnc					Plan			
				Contract Procedure Rules					Cnc	Lim		So					Plan		
				Project Office						Cnc		So							Plan
		Contract Management											Plan				Plan		
		Subsidiary Company Governance										So					Plan		
Director of Place & Space	Planning & Development	Spatial Planning	Strategic Planning	Lim	Hi	Cnc									Plan				
			Conservation Management									Cnc				Plan			
		Development Management	Development Control		Lim											Plan			
			Pre-Application Planning												Plan				
			Building Control			Sub				Cnc		N/A		Plan		Plan			
		Planning Finance	Planning Enforcement								Sub			Plan				Plan	
	Developer Contributions			Cnc	Sub			Sub			Cnc			Plan			Plan		
	Land Charges						Sub								Plan				
			Planning Income					Cnc								Plan			
	Environment & Land Management		Grounds Maintenance	Sub			Lim							Plan					
			Waste & Recycling	Cnc	Sub	Sub		Sub		Lim		So	So		Plan				
Environmental Enforcement								Cnc						Plan					
Cemeteries									Cnc	So					Plan				

MID KENT AUDIT

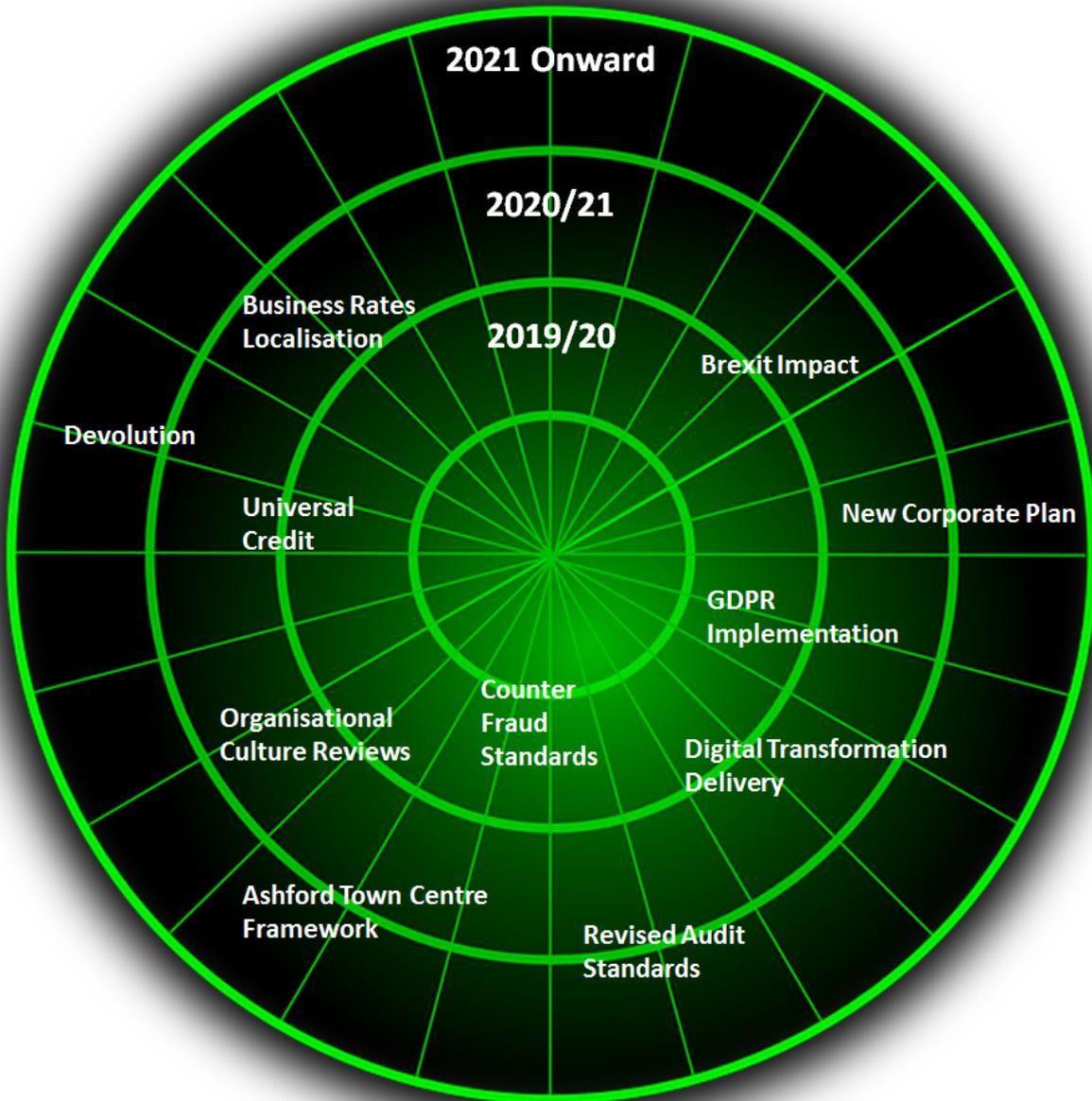
Director	Service Area	Auditable Areas	07/08	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22		
Director of Place & Space	Culture	Tourism		Sub							N/A						Plan		
		Safeguarding									Wk			Plan					
		Leisure Development						Cnc				Cnc				Plan			
		Parks & Open Spaces						Cnc										Plan	
		Community Grants											Plan						
Director of Law & Governance	Legal & Democracy	Legal Services	Legal Services													Plan			
		Register of Interest					Sub			So						Plan			
		Democratic Services	Members' Allowances			Sub		Sub				So					Plan	Plan	
		Member Development									So						Plan		
		Elections					Cnc	Cnc		Cnc	Cnc	Str					Plan		
		Information Governance	Freedom of Information	Lim				Cnc	Cnc			Cnc	Str	Plan				Plan	
		Data Protection					Lim				Wk			Plan	Plan				
	HR & Customer Services	Human Resources	Payroll	Sub	Hi	Sub	Sub	Cnc	Hi	Hi		Cnc	Str	Plan		Plan		Plan	
			HR Policy Compliance	Sub										So				Plan	
			Recruitment	Cnc	Lim		Lim								Str				Plan
			Training		Cnc	Sub	Cnc						Str				Plan		
			Performance Management	Cnc	Cnc	Cnc								Str				Plan	
		Customer Services	Gateway					Sub									Plan		
			Customer Services											So					Plan
			Complaints	Cnc	Lim											Plan			
			Emergency Planning	Sub														Plan	
			Business Continuity	Cnc							Lim			Wk				Plan	
	Health, Parking & Community Safety	Community Safety & Resilience	Community Safety Partnerships			Cnc					So					Plan			
			CCTV/Monitoring		Cnc	Sub	Cnc		Sub					So				Plan	
			Licensing		Sub			Cnc	Cnc		Str						Plan		
			Environmental Health	Food Safety					Sub						Cnc	Plan			
		Air Quality														Plan			
		Animal Welfare/Pest Control							Lim	Sub						Plan			
		Parking	Car Parks	Sub				Cnc	Sub				Str					Plan	
			Residents' Parking			Sub					Sub				So				Plan
			Parking Income				Sub									Plan			

MID KENT AUDIT

Auditable Areas Key:	Audit Results Key:
Core Finance System	High/Strong
Governance Area	Substantial/Sound
Operational Area	Limited/Weak
	No/Poor
	Cancelled from plan
	In progress from plan
	No rating given
	On future plan

MID KENT AUDIT

As set out in the risk assessment, we also consider broader issues that don't necessarily fit within the structure chart. These include the Council's strategic risks and subjects where the right audit response is not yet clear. The chart below summarises some of these subjects we are keeping track of, for potential future inclusion within an audit programme:



MID KENT AUDIT

Appendix II: Audit Team CVs & Experience

Management

Rich Clarke CPFA ACFS (Head of Audit Partnership): Rich became head of the audit partnership in April 2014 joining from KPMG, where he had a range of internal and external audit clients across the public sector. Rich is a Chartered Accountant (CPFA) and during 2015 undertook and passed further study to become an Accredited Counter Fraud Specialist (ACFS). Rich is also UK Local Government representative on the Internal Audit Standards Advisory Board, the body charged with updating the Public Sector Internal Audit Standards. In 2016 Rich also began ancillary work as a CIPFA associate, delivering training on CIPFA's behalf across the country on managing and improving internal audit teams. In addition, Rich is currently Chairman of the Kent Audit Group and an Executive Board Member and Treasurer of the London Audit Group.

Russell Heppleston CMIIA (Deputy Head of Audit Partnership): Russell started working for the Maidstone / Ashford partnership in November 2005, and continued his role as Auditor for the Mid Kent Audit Service when it was established in 2010. He progressed through professional qualifications with the Institute of Internal Auditors (IIA) to achieve Chartered member status and the Qualification in Internal Audit Leadership (QIAL). Having been appointed as Audit Manager for Swale and Maidstone in 2013, Russell was subsequently appointed as Deputy Head of Audit Partnership in the 2015 restructure. Russell has recently attained that International Diploma of Enterprise Risk Management (GradIRM), and leads the risk management support work across the partnership.

Frankie Smith CMIIA (Audit Manager – Swale & Tunbridge Wells): Frankie Smith has worked in internal audit for 17 years, starting as an auditor at Maidstone Borough Council. During this time Frankie has completed audits at Ashford, Maidstone, Swale and Tunbridge Wells. Frankie achieved Chartered Auditor (CMIIA) status in August 2015 and was appointed that same month to the role of Audit Manager at Swale and Tunbridge Wells.

Alison Blake ACCA, CIRM (Audit Manager – Ashford & Maidstone): Alison joined the internal audit partnership in 2012 and took on the role of Audit Manager in January 2016. Prior to this Alison worked for South Coast Audit for 7 years where she undertook internal audit work across a range of NHS clients in East Kent. During Alison's career she has completed a wide range of audit work with the aim of supporting the in achieving their objectives and the objectives of the organisation as

MID KENT AUDIT

a whole. In 2014 Alison achieved the Certificate qualification from the Institute of Risk Management.

Senior Auditors

Mark Goodwin ACFT (Senior Auditor): Mark joined Ashford Borough Council in January 1999 having previously worked at Maidstone Borough Council in an audit role. He was a founder member of the Ashford and Maidstone Internal Audit Partnership before this developed into the four-way Mid Kent Audit Partnership in April 2010. He is an experienced auditor who has audited extensively the full spectrum of Council services and activities across a number of local authorities. Mark was awarded the Accredited Counter Fraud Technician (ACFT) designation by CIPFA in March 2016.

Claire Walker (Senior Auditor): Claire joined the audit partnership in September 2010, and has wide experience in a variety of sectors and bodies; Local and Central Government, Arts, Broadcasting, Financial Services, NGOs and Not for Profit Sector and associated grant making programmes. Claire delivered some training and mentoring projects for the FCO, in addition to work on European Social Fund projects. Within Local Government Claire has undertaken a wide range of audits with a focus on legal compliance, contracts and governance arrangements. Other audit experience covers outsourcing functions, due diligence, and fraud investigations.

Jo Herrington PIIA CIA (Senior Auditor): Jo joined the audit partnership in September 2013. Prior to this Jo worked for Gravesham BC for nearly nine years where she gained experience of working in the Finance department and the Revenues department before settling in the Internal Audit team in September 2009. As part of the Internal Audit team she gained broad experience conducting financial and operational audit reviews, as well as being involved in working groups across the authority. Jo was promoted to the position of Senior Auditor in 2015 and has since gained qualifications as a Practitioner of the Institute of Internal Auditors (PIIA) in October 2015 and as a Certified Internal Auditor (CIA) in June 2016.

Jen Warrillow PIIA CIA (Senior Auditor): Jen joined Mid Kent Audit in September 2013 from Kent County Council where she trained as an Internal Auditor. She undertook a wide range of audits including financial, governance and grant funding internally for the Council and externally for Parish Councils. Jen was previously an investigator at Swale BC and then moved on to Tonbridge & Malling BC. She is now studying to become a Chartered Member of the Institute of Internal Auditors. Jen was promoted to the position of Senior Auditor during the 2015 restructure.

MID KENT AUDIT

Auditors

Paul Goodwin AAT (Auditor): Paul began working for Tunbridge Wells BC in 1990 and has spent almost all his work since in Internal Audit. Paul is a qualified Accounting Technician.

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

Trainee Auditors

Ben Davis (Trainee Auditor): Ben joined the team in March 2015 as a trainee auditor. He holds a degree in Modern History from UEA and has previous experience in finance teams in the private and voluntary sectors. Ben began training towards achieving a professional qualification through the Chartered Institute of Public Finance and Accountancy (CIPFA) and has progressed successfully through the qualification. He aims to achieve the full professional qualification in mid 2018.

Louise Taylor (Trainee Auditor): Louise joined the team in November 2015 as audit team administrator and became a trainee auditor in August 2016. Louise had previously worked in the Planning department of Maidstone BC and has extensive experience working with local authorities. In early 2017 Louise began training to become a Certified Internal Auditor (CIA) with the Institute of Internal Auditors (IIA). She also holds an MA in Planning, Policy and Practice and a degree in Human Geography.

Framework Contracts

In March 2018 we signed on to be a part of the APEX Audit and Anti-Fraud framework. Administered by London Borough Croydon, this agreement allows participating local authorities to acquire specialist and general audit support through a centrally procured contract, with no minimum or maximum commitment. After a competitive tender, LB Croydon awarded the framework contract in December 2017 to Mazars LLP, a major accounting and audit firm we have worked with previously in Mid Kent.

MID KENT AUDIT

We also, informally, have negotiated with Kent County Council access to its call-off contract for specialist and general audit support with BDO LLP. Therefore we now have two straightforward and competitively priced options to help support our work.

MID KENT AUDIT

Appendix III: Performance Indicators

Area	Ref	Indicator	Definition
Finance	F1	Cost per audit day	Total cost of service / productive days
	F2	Audits completed on budget	Percentage of audits delivered within pre-determined number of days
	F3	Chargeable days	Percentage of staff time spent on delivering the audit plan (as distinct from training, personnel management, admin and so on).
Internal Process	I1	Full PSIAS conformance	Conformance with Public Sector Internal Audit Standards, as assessed by IIA
	I2	Audits completed on time	Percentage of audits completed on or before a deadline agreed with the audit sponsor within our audit brief
	I3	Draft reports on time	Percentage of draft reports delivered within 10 days of concluding fieldwork
Customer	C1	Satisfaction with assurance	Percentage of respondents 'very/satisfied' with the assurance received based on surveys sent at end of each audit project
	C2	Final reports on time	Percentage of final reports delivered within 5 days of closing meeting
	C3	Satisfaction with conduct	Percentage of respondents 'very/satisfied' with staff conduct shown based on surveys sent at end of each audit project
Learning & Developing	L1	Implemented recommendations	Percentage of recommendations implemented as agreed with audit
	L2	Qualification Success	Pass rate of exams undertaken by members of the audit team.
	L3	Satisfaction with skills	Percentage of respondents 'very/satisfied' with staff skills displayed based on surveys sent at end of each audit project

MID KENT AUDIT

Appendix IV: Assurance Ratings

Assurance Ratings 2018/19 (unchanged since 2014/15)

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

MID KENT AUDIT

Recommendation Ratings 2018/19 (unchanged since 2014/15)

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

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

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

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

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

ⁱ *Vanitas Still Life* by Evert Collier (1662)

This page is intentionally left blank



Agenda Item No: 10
Report To: Audit Committee
Date: 20 March 2018
Report Title: Business Continuity Planning Audit Report
Report Author: Rich Clarke – Head of Audit Partnership

Summary:	An update to Members of the Committee on progress towards completing the audit actions arising from the review of Business Continuity published in September 2017.
-----------------	--

Key Decision: NO

Affected Wards: All

Recommendations: The Committee **notes** progress.

Policy Overview: N/A

Finance: N/A
Risk Assessment N/A

EIA N/A

Other Matters: N/A

Exemption Clauses: N/A

Background Papers: None

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

Report Title: Business Continuity Planning Audit Report

Purpose of the Report

1. To update Members on progress towards completing actions arising from the audit review of Business Continuity published in September 2017. Members received the first report in September and a verbal update in December 2017. At that latter update, officers advised that they could not meet some of the original action dates set for the end of December, and so suggested alternative dates towards Spring 2018. As audit, we believed no extra risk accrued from the delay when considering the increased focus on the subject during the period of addressing recommendations. Members accepted the request.
2. This report provides a further update on progress up to March 2018.

Background

3. We undertook our review of the Council's Business Continuity Planning arrangements during June 2017. We issued our draft report in early August following discussions with officers. The objective was to provide assurance the Council has properly developed and formalised business continuity arrangements in place.
4. We noted that while the Council has had some success in managing recent business continuity events, the formal business continuity arrangements could not claim the credit. Instead the Council largely relied on the expertise and commitment of individual staff. We found in particular that the corporate and service level business continuity plans were out-of-date and not connected to a policy statement.
5. We raised twelve recommendations to support improvements to the service. We rated five as high priority, meaning the Council must take remedial action at the next available opportunity. A further three recommendations we rated as medium priority, meaning the Council should take remedial action normally within six months to a year. The remaining four received low or advisory ratings.
6. Officers agreed all the recommendations raised and put in place actions to address them. An important part of our approach is to agree implementation dates in a discussion between audit and management. Although our ratings give our view on urgency of action, we do not impose implementation dates. We recognise officers must assess each action on its specifics and so regularly vary these timescales for practical, risk, capacity or cost reasons.

Action Plan

7. The original action plan saw the Council addressing all matters within 7 months of final report, and all but one within 3 months.
8. In December, officers advised Members of a plan to delay some of the agreed actions to allow effective completion. In audit, we agreed the delays were reasonable and posed no significant added risk.
9. The table below summarises progress so far (note that R10 and R11 were advisory recommendations only so not subject to follow up review):

Rec & Rating	Original Date	Changed Date	Completed Date	Audit Verified?
R1: Business Continuity Policy (High)	19/10/17	n/a	12/10/17	✓
R2: Update Overarching BC Plan (High)	5/10/17 (main) 29/10/17 (appendix)	7/12/17 (main) 31/1/18 (appendix)	12/12/17 (main) 31/1/18 (appendix)	✓
R4: Risk Assessment (High)	05/10/17	07/12/17	31/01/18	✓
R7: Alternative Site (High)	29/10/17	31/03/18	01/02/18	✓ (see note)
R9: Updated Service Plans (High)	29/09/17	31/01/18	23/01/18	✓
R5: Restoration Priorities (Med)	29/10/17	31/01/18	n/a, see below	Awaited
R8: Testing (Med)	31/03/18	n/a	06/02/18	✓
R12: Service Testing (Med)	19/10/17	31/03/18	n/a	Awaited
R3: Steering Group (Low)	30/11/17	n/a	30/11/17	✓
R6: Guidance Notes (Low)	29/08/17	n/a	29/08/17	✓

10. On R7 (Alternative Site), the Council has identified alternative sites, namely Aspire Depot for the immediate response and use by the Business Continuity Incident Management Team and Repton Connect Community Centre for a full

back-up facility. Supplementary Office Accommodation has also been identified and referenced within the Overarching Business Continuity Plan. Reciprocal arrangements are also in place with regard to telephone provision. While the Aspire Depot is already equipped, Repton needs some cabling work to make it fully viable as an alternative setting. That work is underway and due to complete by the end of March. However, we have agreed the recommendation as completed based on officers' identification and assessment of the Aspire Depot as an alternative setting.

11. On R5 (Restoration Priorities), the council has updated all service area priorities. These are being scrutinised by the Business Continuity Steering Group to ensure effective business continuity response. This will be an on-going process.
12. On R8 (Testing), we have verified a commitment to test within the new policy approved by Cabinet in October 2017. The first of what is to be a regular series of full tests will take place, supported by Zurich Municipal, during March 2018.
13. We will complete our follow-up work on remaining recommendations as they fall due. For recommendations completed between January and March 2018 we will review in June/July. This is the point where we will examine and verify implementation of medium priority recommendations such as R5.
14. On the basis of the action taken, and completion of all high priority recommendations, the assurance rating has been reassessed as 'sound'.

General Progress of 'Weak' Rated Reports

15. Since 2014, the Committee has received updates on four other reports originally rated as offering only 'weak' assurance. For completeness, the table below summarises the current position on the others.

Report & Date	Actions Due for Completion	Actions Completed & Verified ¹	Notes
ICT Disaster Recovery (October 2014)	Oct-14	Jan-15	New review in 2017/18 concluded with 'Sound' assurance rating.
Safeguarding (December 2015)	Apr-16	Sep-16	New review scheduled in 2018/19
Data Protection (February 2016)	Jul-16	Aug-17	GDPR review scheduled in 2018/19
Property Management (May 2017)	Nov-17	Mar-18	New review scheduled in 2019/20

¹ Note that we undertake verification quarterly, so dates shown are up to three months after the service acted to implement.

Risk Assessment

16. N/A

Equalities Impact Assessment

17. N/A

Other Options Considered

18. N/A

Consultation

19. We have continued to get information from the Service as part of our routine follow up of agreed audit actions. We circulated this report to the service immediately before presentation to Members to ensure currency.

Implications Assessment

20. N/A

Handling

21. N/A

Conclusion

22. Management continue to take prompt action against agreed audit actions. The service has met the changed timelines suggested to Members in December.

Portfolio Holder's Views

23. N/A

Contact: Rich Clarke – Head of Audit Partnership
Tel: 01233 330442

Email: rich.clarke@midkent.gov.uk

This page is intentionally left blank



Agenda Item No: 11
Report To: Audit Committee
Date of Meeting: 20 March 2018
Report Title: Audit Plan 2017/18
Report Author & Job Title: Grant Thornton
Portfolio Holder: N/A
Portfolio Holder for:

Summary: The attached Audit Plan provides an overview of the planned scope and timing of the statutory audit of the Council.

The scope of the audit includes responsibilities for forming and expressing an opinion on the:

Financial statements (including the Annual Governance Statement)

Value for money arrangements in place at the Council for securing economy, efficiency and effectiveness in the use of the Council's resources.

Key Decision: No

Significantly Affected Wards: None

Recommendations: **The Committee is recommended to:-**

I. Note the Audit Plan

Financial Implications: N/A

Legal Implications: N/A

Equalities Impact Assessment: N/A

Other Material Implications: N/A

Exempt from Publication: NO

Contact:

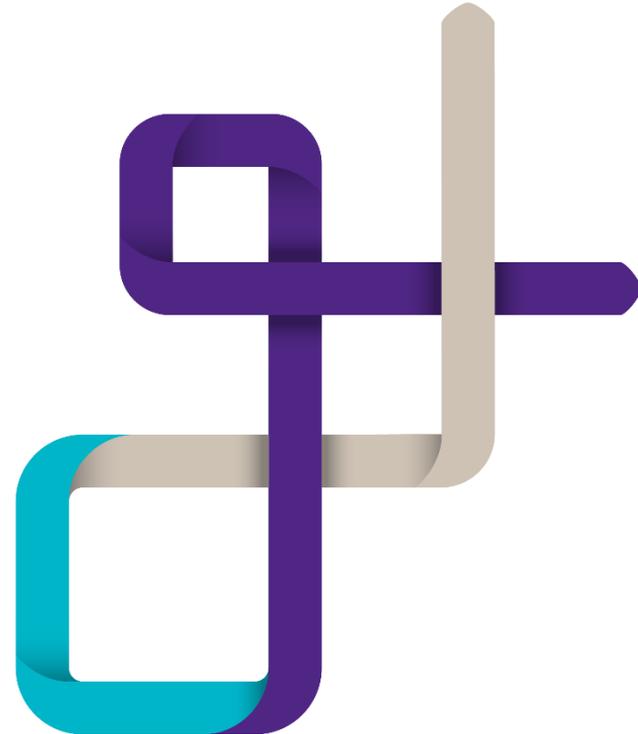
Maria.hadfield@ashford.gov.uk – Tel: (01233) 330545

External Audit Plan

Year ending 31 March 2018

Ashford Borough Council
March 2018

Page 91



Contents



Your key Grant Thornton
team members are:

Page 92

Ciaran McLaughlin
Engagement Leader

T: (0)20 7728 2936

E: ciaran.t.mclaughlin@uk.gt.com

Trevor Greenlee

Engagement Manager

T: 01293 554071

E: Trevor.Greenlee@uk.gt.com

Marc Chang

In-charge Accountant

T: 02077283066

E: Marc.Chang@uk.gt.com

Section	Page
1. Introduction & headlines	3
2. Business understanding	4
3. Significant risks identified	5
4. Reasonably possible risks identified	7
5. Other matters	8
6. Materiality	9
7. Group audit scope and risk assessment	10
8. Value for Money arrangements	11
9. Audit logistics, team & audit fees	12
10. Early close	13
11. Independence & non-audit services	14
Appendices	
A. Revised ISAs	16

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Ashford Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Ashford Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of control (this is a presumed risk for all entities under ISA240)
- valuation of property, plant and equipment
- valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1,727,000 (PY £1,717,000), which equates to approximately 2% of your gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £86,000 (PY £86,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- continuing to maintain an effective financial planning framework to manage the impact of reductions in government funding.

Audit logistics

Our interim visit will take place in February/March 2018 and our final visit will take place in June/July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £60,311 (PY: £60,311) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation.

You already have an established subsidiary company "A Better Choice for Property Ltd." to help generate income from investment property. The company's transactions are consolidated in the Council's accounts.

You are currently developing a commercial investment strategy to help identify opportunities for generating further income from property investment.

Local authorities need to ensure that the financial reporting for any commercial activities complies with the CIPFA Code of Practice and the statutory framework, including the Capital Finance Regulations, and that any borrowing complies with CIPFA's Prudential Code.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department for Communities and Local Government (DCLG) is currently undertaking a review of the Regulations. It is not yet clear if there will be any changes to the regulations or if any changes will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditor's opinion by 31 July 2018. You are already working to the new accelerated timetable, as you published your 2016/17 audited accounts in July 2017.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code. These include confirming the going concern basis for local authorities, and updates for leases, service concession arrangements and financial instruments.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,
- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Key challenges

Financial pressures

Local authorities continue to face significant financial pressures associated with reductions in government funding. You will not receive Revenue Support Grant after 2018/19. You also face significant reductions in future funding from New Homes Bonus following recent changes to the scheme.

You have a history of effective financial management and have already taken action in previous years to address these financial pressures, both to reduce costs and generate additional income. You are currently forecasting only a minor overspend against revenue budget for 2017/18.

Your most recent medium term financial plan indicates that you continue to have a robust position, although there will be a need to address the budget gaps identified after 2018/19. Further work will also be required to deliver planned savings targets and to develop future income streams.

Regeneration

You continue to have a strong corporate focus on identifying opportunities for development and regeneration within the borough, including the "Big 8" capital projects and a substantial programme of housing capital investment.

The continued strength of your financial planning framework will be important in helping to deliver your key corporate objectives over the medium term.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code and the revised stock valuation guidance for the HRA.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Ashford Borough Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Page 95

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of property, plant and equipment</p>	<p>The Council regularly revalues its land and buildings to ensure that carrying value is not materially different from current value. Investment properties are revalued annually at fair value. These valuations represent a significant estimate by management in the financial statements.</p> <p>We have identified land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • consider the competence, expertise and objectivity of any management experts used • test that revaluations made during the year are input correctly into the Council's asset register • evaluate the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.
<p>Valuation of pension fund net liability</p>	<p>The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p> <p>We have identified the valuation of the Council pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out • undertake procedures to confirm the reasonableness of the actuarial assumptions made • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We have identified completeness of payroll expenses as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls perform analytical review procedures to assess the completeness of payroll information in the accounts review yearend reconciliations to ensure completeness of information in the accounts.
Operating expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We have identified completeness of non- pay expenses as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls perform substantive testing on creditor balances perform cut-off testing to ensure that transactions have been recorded in the correct accounting period review yearend reconciliations to ensure completeness of information in the accounts.

Page 97

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

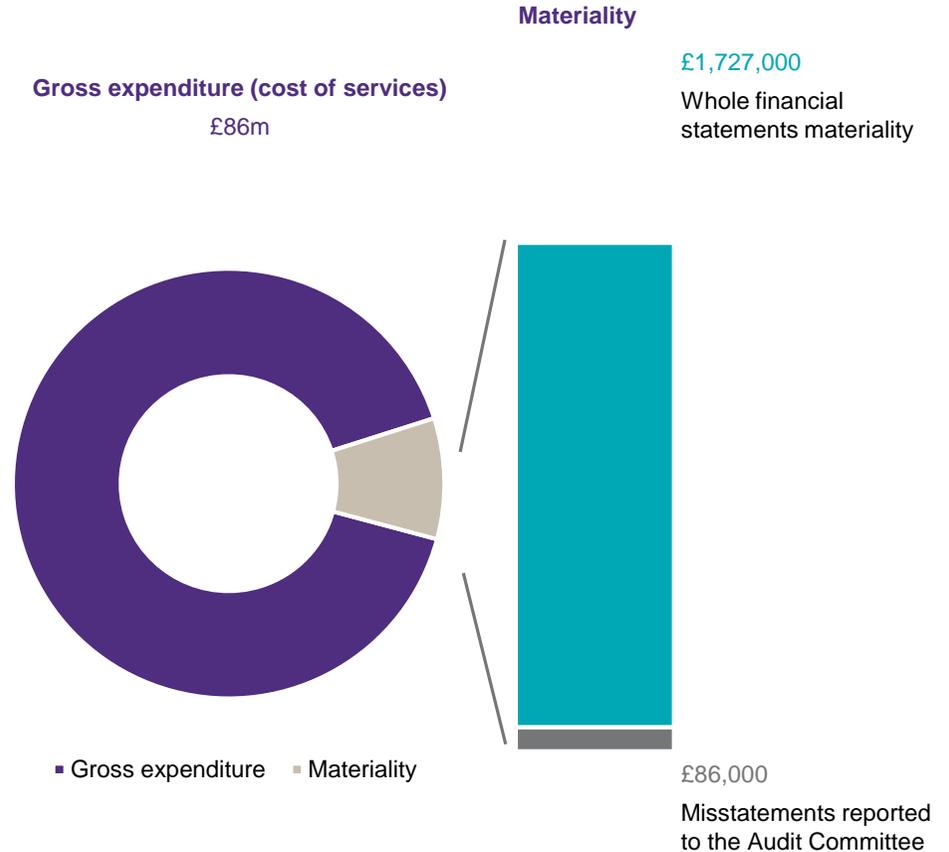
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1,727,000 (PY £1,707,000). We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £86,000 (PY £86,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
A Better Choice of Property	Yes	Targeted	Valuation of investment properties	Specific (targeted) scope procedures to be performed by the audit team.

Page 100

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money arrangements

Background to our VFM approach

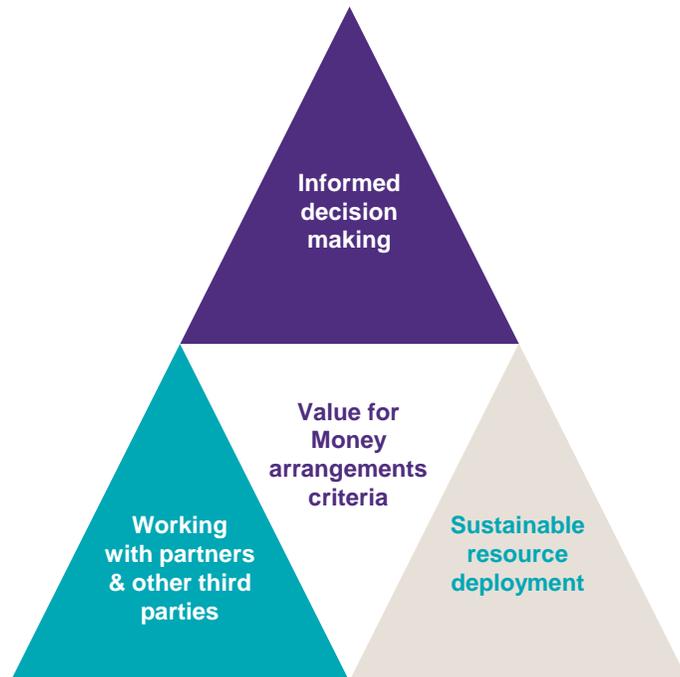
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Page 101



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Financial sustainability

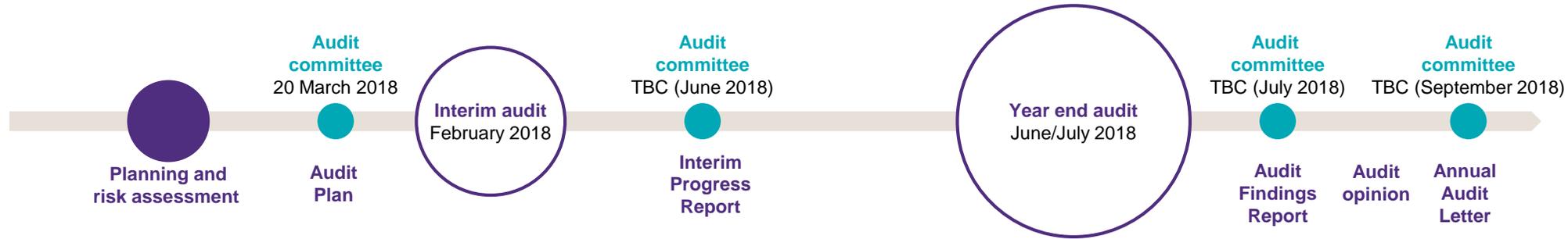
You continue to face financial pressures associated with reductions in government funding. You have taken a number of measures over recent years to address these issues, both to reduce costs and generate additional income.

Your most recent medium term financial plan indicates that you continue to have a robust position, although further work will be required to deliver planned savings and develop future income streams.

The continued strength of your financial planning framework is key to maintaining a sustainable financial position whilst delivering your key objectives over the medium term.

We will update our understanding of your medium term financial planning framework and review the supporting information trails.

Audit logistics, team & audit fees



Page

Ciaran McLaughlin, Engagement Lead



Trevor Greenlee, Engagement Manager



Marc Chang, In-charge Accountant

Audit fees

The planned audit fees are no less than £60,311 (PY: £60,311) for the financial statements audit. Our indicative fee for grant certification work is £8,112. 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'.

In setting your fee we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

No non-audit services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendices

A. Revised ISAs

Page 105

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

Pages 106

This page is intentionally left blank

Agenda Item 12

Agenda Item No. 12

Audit Committee - Future Meetings

Dates to Note			
Date of Meeting	20/03/2018		
Publication of Agenda Date	09/03/18		
Reports to Management Team	01/03/18		
Full Council	19/04/18		
Items for Inclusion on the Audit Agenda			
Part I - For Decision			
1	Certification of Grant Claims – Annual Letter	Gr Th (cover by ABC)	
2	Presentation of Financial Statements	MS	
3	Risk Management Framework update - Presentation	LF/CH	
4	Annual Governance Statement – Progress on Remedying Exceptions	LF	
5	Internal Audit Charter	RC	
6	Internal Audit and Assurance Plan 2018/19	RC	
7	Business Continuity – progress update	SD/RC	
Part II - Monitoring/Information Items			
8	External Audit 2017/18 Audit Plan	Gr Th	
9	Report Tracker for Future Meetings	KM	

Dates to Note			
Date of Meeting	19/06/2018		
Publication of Agenda Date	08/06/18		
Reports to Management Team	07/06/18		
Full Council	19/07/18		
Items for Inclusion on the Audit Agenda			
Part I - For Decision			
1	An Early Look at the Statement of Accounts for 2017/18 (including member training)	MS	
2	Internal Audit Annual Report 2017/18	RC	
3	Annual Report of the Audit Committee 2017/18	RC	
4	Approval of Annual Governance Statement 2017/18	LF	
5	Strategic Risk Management	LF/CH	
Part II - Monitoring/Information Items			
6	External Audit Fee Letter	Gr Th	
7	External Audit Progress Report	Gr Th	
8	Report Tracker for Future Meetings	KM	

Dates to Note			
Date of Meeting	10/07/2018		
Publication of Agenda Date	29/06/18		
Reports to Management Team	21/06/18		
Full Council	19/07/18		
Items for Inclusion on the Audit Agenda			
Part I - For Decision			
1	Statement of Accounts 2016/17 and the External Auditor's Audit Findings Report	Gr Th (cover by ABC)	
2	2016/17 Financial Statements – Letters of Assurance to External Auditors	BL	
3	Corporate Enforcement Support & Investigations Team Annual Report 2016/17	DD	
Part II - Monitoring/Information Items			
4	The External Audit Work Plan for Ashford Borough Council	Gr Th (cover by ABC)	
5	Report Tracker & Future Meetings	KM	

Dates to Note			
Date of Meeting	27/09/2017		
Publication of Agenda Date	19/09/17		
Reports to Management Team	07/09/18		
Full Council	19/10/17		
Items for Inclusion on the Audit Agenda			
Part I - For Decision			
1	Annual Governance Statement – Progress on Remedying Exceptions	LF	
Part II - Monitoring/Information Items			
2	External Audit Progress Report	Gr Th	
3	Report Tracker & Future Meetings	KM	

Dates to Note			
Date of Meeting	04/12/2018		
Publication of Agenda Date	23/11/18		
Reports to Management Team	15/11/18		
Full Council	13/12/18		
Items for Inclusion on the Audit Agenda			
Part I - For Decision			
1	Annual Governance Statement – Progress on Remedying Exceptions	LF	
2	Strategic Risk Management	LF/CH	
Part II - Monitoring/Information Items			
3	Annual Audit Letter 2017/18	Gr Th	
4	Internal Audit Interim Report	RC	
5	External Audit Progress Report	Gr Th	
6	Report Tracker & Future Meetings	KM	

06/02/2018

This page is intentionally left blank