



AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 10 December 2014
Time: 7.00 pm
Venue: Committee Room - Swale House

Membership:

Councillors Andy Booth (Vice-Chairman), Derek Conway, John Coulter, Ed Gent, Nicholas Hampshire, Harrison, Peter Marchington, Pat Sandle (Chairman) and Nick Williams

Quorum = 3

Pages

1. Apologies for Absence and Confirmation of Substitutes
2. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Director of Corporate Services as Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

3. Minutes

To approve the Minutes of the Meeting held on 17 September 2014 (Minute Nos. 233 - 238) as a correct record.

Part A Report for Recommendation to Council

4. Treasury Management Half Year Review 1 - 12

Part B Reports for Decision by the Audit Committee

5. Annual Audit Letter 13 - 18
6. Audit Committee Update 19 - 30
7. Internal Audit Interim Report 31 - 52
8. Audit Committee Work Programme 53 - 56
9. Exclusion of the Press and Public

To decide whether to pass the resolution set out below in respect of the following item:

That under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Paragraphs 1, 3 and 7 of Part 1 of Schedule 12A of the Act:

- 1. Information relating to any individual.
- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).
- 7. Information relating to any action taken in connection with the prevention, investigation or prosecution of any crime.

10. Investigation Summary Report 57 - 60

Issued on Monday, 1 December 2014

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit www.swale.gov.uk

**Corporate Services Director, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

Audit Committee	Agenda Item: 4
Meeting Date	10 December 2014
Report Title	Treasury Management Half Year Report
Cabinet Member	CIlr Duncan Dewar-Whalley, Cabinet Member for Finance and Performance
SMT Lead	Nick Vickers, Head of Finance
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Olga Cole, Management Accountant
Key Decision	No
Classification	Reference number:
Recommendations	<ol style="list-style-type: none"> 1. To note the performance information in this report. 2. To note the possible reduction in our minimum acceptable credit returns for bank deposits.

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2014/15, including compliance with treasury limits and Prudential Performance Indicators. The report will go to Council on 21 January 2015.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. In accordance with the Code of Practice members are informed of Treasury Management activities twice a year.
- 1.3 The approach to the use of the cash surplus continues to be highly risk averse both in terms of the counterparties the Council will use and the duration of deposits.

2. Background

Borrowing

- 2.1 The Council continues to be debt free. Council in September did agree to allow for borrowing to be part of the solution to funding the multi-story car park.

Investments

- 2.2 The counterparties agreed by Cabinet and Council earlier this year when the 2014/15 Treasury Strategy was approved are:

- Debt Management Office – Debt Management Account Deposit Facility;
 - Gilts (bonds issued by the UK Government);
 - Money Market Funds; and
 - Major UK Financial institutions with a lowest minimum long term credit rating of A- or equivalent:
 - Royal Bank of Scotland Plc (RBS);
 - National Westminster Bank;
 - Lloyds Bank Plc;
 - Bank of Scotland Plc;
 - Barclays Bank Plc;
 - HSBC Bank Plc;
 - Santander UK Plc;
 - Standard Chartered Bank;
 - Svenska Handelsbanken;
 - Leeds Building Society;
 - Close Brothers; and
 - Nationwide Building Society.
- 2.3 The investment activity during the first six months conformed to the approved strategies at all times, with no breaches.
- 2.4 Investments held at 30 September 2014 can be found in Appendix I.
- 2.5 The most important development this year has been the moves by UK and European Governments towards “bail in” of banking institutions. This means that rather than providing direct financial support themselves, Government’s will look to holders of equity, debt and depositors (including local authorities) to take a direct financial hit or “haircut” should banks have financial difficulties.
- 2.6 This move away from direct Government support is likely to lead to downgrades of banks by the credit rating agencies.
- 2.7 Interest rates on deposits have continued to reduce. We have taken the view that security of funds is the key priority and we are not seeking very small marginal increases in rates earned through widening the asset classes we can invest in, as security and liquidity are our concerns.
- 2.8 In October the Council’s Treasury management advisors Arlingclose shortened their recommended maximum duration of investments from 13 months to 6 months. The Council keeps almost all of the funds on a very short duration.
- 2.9 The Council did not need to borrow to cover cash flow purposes in the period.

- 2.10 Interest income received for the first half of 2014 was £23,000 above the profiled original budget of £39,000.
- 2.11 For the six months to 30 September 2014, the Council maintained an average sum invested of £28m compared with an original budget of £26m, and an average rate of return of 0.44% compared to a budget of 0.30%.
- 2.12 The results for the six months to 30 September 2014 show that the Council achieved 0.09% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.06% average return rate below the Bank of England Base Rate.

Compliance with Prudential Indicators

- 2.13 The Council can confirm that it has complied with its Prudential Indicators for 2014/15 which were set in February as part of the Council's Treasury Management Strategy Statement.
- 2.14 Prudential Indicators are set out in Appendix II.

3. Proposals

- 3.1 Arlingclose have proposed that given the possibility of credit rating agency downgrades before the new Treasury Strategy is agreed in February by Council, we should consider reducing our minimum acceptable credit rating.
- 3.2 Therefore if any bank on our list was reduced to BBB+ (or equivalent) it could still be used. But duration would be kept very short.

4. Alternative Options

- 4.1 The Head of Finance will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5. Consultation Undertaken

- 5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	No direct application.
Financial, Resource and Property	As detailed in the report.

Issue	Implications
Legal and Statutory	The Council has powers to both borrow funds to support its work and to invest and earn interest on funds available.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Sustainability	None
Health and Wellbeing	None
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	None

7. Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments as at 30 September 2014
- Appendix II: Treasury Management Prudential Indicators

8. Background Papers

8.1 The background papers are held by Finance and include:

- Prudential Code for Capital Finance in Local Authorities (2013 Edition) – CIPFA
- Treasury Management in the Public Services Code of Practice and Cross Sectional Guidance Notes (2011 Edition) – CIPFA
- Treasury Management in the Public Services Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 Edition)– CIPFA
- Treasury Management Strategy Statement and Investment Strategy 2014 -15

Investments as at 30 September 2014

Counterparty/ Country	Long-Term Rating (Moody's)	Balance Invested as at 30 September 2014 £'000
Lloyds TSB Bank Plc	A1	3,000
Standard Chartered Bank	A1	3,000
Santander UK Plc (Call Account)	A2	3,000
Svenska Handelsbanken	Aa3	3,000
Total Banks		12,000
Goldman Sachs Money Market Fund	Aaa-mf	1,500
Scottish Widows Money Market Fund	Aaa-mf	1,500
Black Rock Money Market Fund	Aaa-mf	1,500
BNP Paribas Money Market Fund	Aaa-mf	1,500
Deutsche Money Market Fund	Aaa-mf	1,500
SSgA Money Market Fund	Aaa-mf	1,500
Morgan Stanley Money Market Fund	Aaa-mf	1,500
BNY Mellon Money Market Fund	Aaa-mf	1,270
Total Money Market Funds		11,770
Gross Total		23,770

The Ratings above are from Moody's Ratings. The Long Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

Investment Activity in 2014/15

Investments	Balance on 01/04/2014 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2014 £'000	Average Rate %	Average Life (days)
Short Term Investments	18,490	93,223	(87,943)	23,770	0.44	61
Long Term Investments	3	0	0	3	3.15	Undated
Total Investments	18,493	93,223	(87,943)	23,773		
Increase/(Decrease) in Investments				5,280		

Treasury Management Prudential Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Authority has no external debt.

3. Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Total	1,945	1,107	1,090	1,090

Capital expenditure will be financed follows:

Capital Financing	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Capital receipts	145	0	0	0
Government Grants	1,535	927	1,040	1,040
Revenue contributions	265	180	50	50
Total Financing	1,945	1,107	1,090	1,090

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Actual	2014/15 Original Estimate	2015/16 Original Estimate	2016/17 Original Estimate
	%	%	%	%
Total	4.35	1.81	1.91	1.91

5. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	31/03/14 Actual	31/03/15 Original Estimate	31/03/16 Original Estimate	31/03/17 Original Estimate
	£'000	£'000	£'000	£'000
Total CFR	5,475	5,805	5,474	5,162

6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2014	£'000
Borrowing	0
Other Long-term Liabilities	824
Total	824

7. Incremental Impact of Capital Investment Decisions on Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2013/14 Actual	2014/15 Original Estimate	2015/16 Original Estimate	2016/17 Original Estimate
	£	£	£	£
Increase / (Decrease) in Band D Council Tax	(0.02)	0.00	(0.01)	0.00

8. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2014/15 Original Estimate	2015/16 Original Estimate	2016/17 Original Estimate
	£'000	£'000	£'000
Borrowing	5,000	5,000	5,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	7,000	7,000	7,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Appendix II

Operational Boundary for External Debt	2014/15 Original Estimate £'000	2015/16 Original Estimate £'000	2016/17 Original Estimate £'000
Borrowing	2,000	2,000	2,000
Other Long-term Liabilities	992	774	623
Total	2,992	2,774	2,623

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2014.

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management

The Council approved the adoption of the CIPFA Treasury Management Code at its Council meeting on 22 February 2012.

The Council has incorporated the changes from the revised CIPFA Treasury Management in the Public Services: Code of Practice 2011 into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

Upper Limit for Interest Rate Exposure	Existing level at 30/09/14 %	2014/15 Approved Limit %	2015/16 Approved Limit %	2016/17 Approved Limit %
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-25	-100	-100	-100
Upper Limited for Fixed Interest Rate Exposure	-25	0	0	0
Interest on variable rate borrowing	0	100	100	100

Upper Limit for Interest Rate Exposure	Existing level at 30/09/14	2014/15 Approved Limit	2015/16 Approved Limit	2016/17 Approved Limit
	%	%	%	%
Interest on variable rate investments	-75	-100	-100	-100
Upper Limited for Variable Interest Rate Exposure	-75	0	0	0

As the Council has no borrowing, these calculations have resulted in negative figure.

11. Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Existing level at 30/09/14	Lower Limit for 2014/15	Upper Limit for 2014/15
	%	%	%
Under 12 months	0	0	100
12 months and within 24 months	0	0	0
24 months and within 5 years	0	0	0
5 years and within 10 years	0	0	0
10 years and above	0	0	0

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during the six months to 30 September 2014.

12. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

13. Principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
Total	7,000	7,000	7,000

14. Investment Benchmarking for the six months to 30 September 2014

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Rate	Average 7 day LIBID Rate
0.44%	0.30%	0.50%	0.35%

This page is intentionally left blank

The Annual Audit Letter for Swale Borough Council

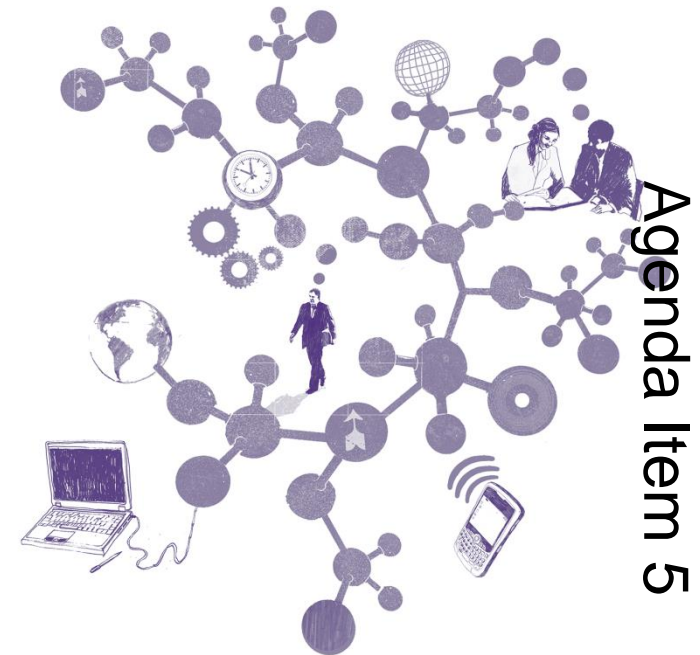
Year ended 31 March 2014

October 2014

Page 13

Andy Mack
Engagement Lead
T 020 7728 3299
E andy.l.mack@uk.gt.com

Trevor Greenlee
Manager
T 01293 554071
E trevor.greenlee@uk.gt.com



Agenda Item 5

Contents

Section	Page
1. Key messages	3
Appendices	
A Summary of reports and audit fees	

Page 14

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Swale Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p>Financial statements audit (including audit opinion)</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report to the Audit Committee on 17 September 2014. The Council's accounts were produced to a high standard and supported by comprehensive working paper trails. Only a small number of audit amendments were required.</p> <p>We issued an unqualified opinion on the Council's 2013/14 financial statements dated 24 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2013/14 dated 24 September 2014.</p> <p>We concluded that the Council continues to have robust arrangements for financial management and budgetary control, and that it has an effective framework to address financial pressures. The Council will need to maintain this focus to deliver further financial savings over the medium term.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts	We considered the consolidation pack which the Council prepares to support the production of Whole of Government Accounts. Under the framework specified by the National Audit Office (NAO) we were not required to perform a detailed review of the consolidation pack. However, where required under this framework we confirmed to the NAO that the entries in the consolidation pack were consistent with the audited financial statements.
Certification of grant claims and returns	For the financial year 2013/14 we are required to certify the Council's housing benefit subsidy claim, which has a certification deadline of 30 November. Our work to certify this claim is still in progress.
Audit fee	<p>Our audit fee for 2013/14 was £80,985 (2012/13: £80,085) excluding VAT. This was an increase of £900 on our planned fee of £80,085.</p> <p>Our work on grant claim certification is still in progress. The indicative fee for grant claim certification work included in our audit plan is £13,200.</p> <p>Further detail is included within Appendix A.</p>

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	80,085	80,985
Grant certification fee	13,200	TBC
Total fees	93,285	TBC

The additional audit fee of £900 is in respect of work on material business rates balances. This additional work is necessary as auditors are no longer required to carry out work to certify the NNDR3 return which District Councils submit to central government. The additional fee is 50% of the average fee previously charged for NNDR3 certifications at District Councils and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	March 2014
Audit Findings Report	September 2014
Annual Audit Letter	October 2014
Certification report	December 2014 (planned)



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Audit Committee Update

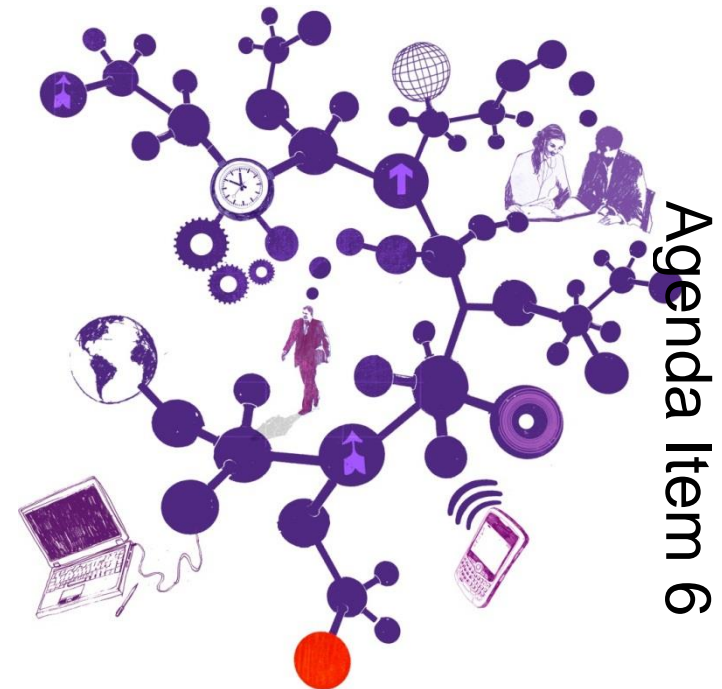
Year ended 31 March 2015

December 2014

Page 19

Iain.G.Murray
Associate Director
T 020 7728 3328
E iain.g.murray@uk.gt.com

Trevor Greenlee
Manager
T 01293 554071
E trevor.greenlee@uk.gt.com



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

Contents

Section	Page
Introduction	4
Progress at December 2014	5
Emerging issues and developments	
Grant Thornton	6
Local government guidance	10

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at www.grant-thornton.co.uk/en/Services/Public-Sector/ and where you can also download copies of our publications.

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

Iain Murray Engagement Lead T 020 7728 3328 E iain.g.murray@uk.gt.com

Trevor Greenlee Engagement Manager T 01293 554071 E trevor.greenlee@uk.gt.com

Page 22

Progress at November 2014

Work	Planned date
<p>Interim accounts audit Our interim work will include:</p> <ul style="list-style-type: none"> • work to understand how the Council's functions are delivered, the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing • early work on any emerging accounting issues. 	January – March 2015
<p>2014-15 Accounts Audit Plan Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the 2014-15 financial statements.</p>	March 2015
<p>2014-15 final accounts audit Work to complete our audit of the 2014-15 financial statements.</p>	August - September 2015
<p>Value for Money (VfM) conclusion Our VfM conclusion is based on the following criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • the organisation has proper arrangements in place for securing financial resilience; • the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p>Our work will be based on a risk assessment to identify areas of risk to our VfM conclusion. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report.</p>	February - September 2015

2020 Vision

Grant Thornton

Our national report '2020 Vision' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Pulling together the Better Care Fund

Grant Thornton

Our national report 'Pulling together the Better Care Fund' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/>

Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:

- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

New routes to housing development

Grant Thornton

We have issued the first in a series of good practice papers on topical issues for local government.

This paper considers good practice in councils' approaches to delivering affordable housing. Until recently, local authorities have acted as an enabler of new affordable housing; increasingly they are now undertaking a direct delivery role. Delivery routes vary and must be structured with the council's objectives and capacity in mind as there is no 'one size fits all' approach. The paper considers the benefits and challenges of council owned housing companies, including:

- Setting and delivering objectives
- Identifying optimal funding routes
- Assessing viability and working with others

The paper stresses the importance of a properly developed business case and business plan to support the setting up of a housing company.

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank

Audit Committee Meeting	Agenda Item: x
--------------------------------	-----------------------

Meeting Date	10 December 2014
Report Title	Internal Audit Interim Report 2014/15
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Russell Heppleston – Audit Manager
Key Decision	No
Classification	Open
Recommendations	<p>1. That the Audit Committee notes the results of the work of the Internal Audit team for the first half year, as shown in the attached report.</p> <p>2. That the Audit Committee notes the revised operational audit plan for the remaining year, as outlined in the attached report.</p>

1 Purpose of Report and Executive Summary

- 1.1 The report provides an update to the Committee on work conducted by the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management’s work in implementing agreed audit recommendations.

2 Background

- 2.1 Internal Audit is a statutory service under the Accounts & Audit Regulations 2011. The principle objective of Internal Audit is to examine and evaluate the adequacy of the Council’s systems of internal controls, risk management and corporate governance.
- 2.2 As those charged with overseeing Governance, the Terms of Reference for the Audit Committee require it to ‘review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary’. In order for the Committee to fulfil its duties regular updates are provided to the Committee on the performance and effectiveness of the Internal Audit Service.

3 Proposal

- 3.1 The attached report provides details of the work of Internal Audit for the first half of the year. The Committee is asked to note the performance of the Internal Audit Service as set out in the attached report, which includes updates on internal control, corporate governance and risk management.
- 3.2 Appended to the report is the revised audit plan for the remainder of the year.

4 Alternative Options

- 4.1 The role of the Audit Committee includes the consideration of risk, controls and governance across the whole Council, in accordance with its Terms of Reference. Therefore, the Committee needs to have an awareness of the work conducted by Internal Audit, in order to adequately fulfil its duties. We recommend no alternative course of action.

5 Consultation Undertaken or Proposed

- 5.1 We have consulted with officers throughout the delivery of our audit work for the first half year.

6 Implications

Issue	Implications
Corporate Plan	The role of Internal Audit is to help the Council accomplish its objectives. All audit work considers the adequacy of controls and risks associated with the delivery of the Council's strategic and operational objectives.
Financial, Resource and Property	None identified at this stage.
Legal and Statutory	Internal Audit is a statutory function in accordance with the Accounts & Audit Regulations 2011.
Crime and Disorder	None identified at this stage.
Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Risk Management and Health and Safety	There are no Health and Safety implications identified at this stage.
Equality and Diversity	None identified at this stage.

7 Appendices

7.1 Appendix A: Interim Internal Audit Report (April – September 2014)

8 Background Papers

8.1 None.

MID KENT AUDIT

**Interim
Internal Audit
Report**

April 2014 – September 2014

Swale



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2011 that require the Council to undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS) that replaced the Code of Practice for Internal Audit in Local Government in the UK.
3. As required by these standards the Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
 - a) Internal Controls: Including financial and non-financial controls.
 - b) Corporate governance: Including effectiveness of measures to counter fraud and corruption.
 - c) Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. This report provides an update to the Committee across all three areas covered in the opinion and the performance of the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

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

Internal Control

5. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
6. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2014.

Audit Plan Progress

7. The table below highlights progress against the audit plan by quarter for the first half of the year 2014/15. Since the plan was agreed in March 2014 there have been a number of revisions to the scheduling of audit projects over each quarter. The table below provides a summarised update of progress against the audit plan. (The audit plan is attached in Appendix II):

Half Year 2014/15		Audit Plan*		Status		
Authority	Quarter work planned to begin	Planned Audits	Revised	Completed	Work in Progress	Not Started
Swale	Q1	4	4	3	1	0
Swale	Q2	8	5	0	5	0
Swale	Q3	7	8	0	2	6
Swale	Q4	5	6	0	0	6
Total Assurance Projects		24	23	3	8	12

* See Appendix II

8. At the half yearly position the team have completed 4 audit projects; of which 3 include a full assessment and assurance rating. We have 8 projects in progress that we expect to complete by the end of the quarter. The remaining projects (12) fall due towards the end of the year and will be scheduled as appropriate.
9. We have also completed a major investigation during the first part of 2014/15, as noted in the section below on Corporate Governance.
10. Our audit plan must remain a flexible, reactive document capable of adaptation to the changing risks the Council faces as its needs and priorities develop. This year is no exception, and as a result there have been a small number of changes agreed with officers to the audit plan as presented to this Committee in March 2014. We detail these changes within Appendix II.

Audit Review Findings to Date

11. In the first half of the year we completed 3 projects that included an assessment and assurance rating. An extract from each report, supporting the conclusion of the audit, is included below. We are pleased to report that officers have accepted our audit findings, and have set target dates for implementing the recommendations. We will follow up that implementation as the recommendations fall due over the coming months.

No.	Head of Service	Title	Assurance Rating
1	Head of Service Delivery	Business Rates Retention Scheme (Risk)	SOUND
2	Director of Corporate Services	Members' Allowances Scheme	SOUND
3	Head of Housing	Housing Allocation Policy	SOUND

Business Rates Retention (Risk)

12. We conclude based on our audit work that there are **SOUND** controls in place for the management of the risks and opportunities associated with the Business Rates Retention Scheme. We provide the definitions of our assurance ratings at appendix I.
13. The Council has a good understanding of the risks associated with the scheme. Mitigating actions are in place to manage the risks in accordance with the Council's current processes. The Council's budget setting has sufficiently considered the scheme's impact and regularly monitors outturn. However, communication between officers needs to be more robust to support monitoring of business rate fluctuations and changes to businesses within the Borough. The effect of appeal levels on the budget are understood and monitored. The Council has implemented opportunities to increase income. Service resilience with regard to understanding technical information from Academy needs to be further developed.

Members' Allowances Scheme

14. We conclude based on our audit work that the Council has **SOUND** controls in place over the management and administration of the Members' Allowances Scheme. We provide the definitions of our assurance ratings at appendix I.
15. The Council's Members' Allowances Scheme fully complies with Regulations. Allowances and expenses paid to Members are paid in accordance with the Scheme and the Council's Financial Regulations. We identified some minor matters for the Council to address including enhancements to its publication of the Remuneration Panel's decisions and changes to improve compliance and efficiency in administration and processing of payments.

Housing Allocations Policy

16. We conclude based on our audit work that the service has **SOUND** controls in place for the successful management of the housing register in compliance with the Council's Housing Allocations Policy. We provide the definitions of our assurance ratings at appendix I.
17. The Council managed implementation of the new Housing Allocations Policy effectively giving careful thought to the impact of changes in housing need criteria to existing applicants. The service continues to operate in line with the Policy and our testing confirms allocation ensures the Council houses those in most need. We identified some minor improvements required around identifying evidence to confirm eligibility and processing refusals.

Follow-up of Internal Audit Recommendations

18. In July 2014 the Audit Committee were asked to agree a revised process for the follow up of audit recommendations. Work has been on-going throughout the first half of the year to systematically follow-up on all audit recommendations that fell due by the 30 September 2014. The table below sets out our findings from that review:

Project	Agreed Actions	Actions Falling Due by 30/09/14	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Business Rate Retention Scheme	2	2	2	0	0
Car Park Income & Season Tickets	3	1	1	0	2
Residents Parking	4	1	1	0	3
Leisure Centre	10	6	6	0	4
Sustainable Sheppey	12	11	11	0	1
Accounts Receivable	1	1	1	0	0
Emergency Planning	6	4	4	0	2
Member's Allowances	1	1	1	0	0
Mid Kent Legal Services	6	6	6	0	0
Mid Kent ICT - PC Internet Controls	18	2	2	0	16
Mid Kent HR - Recruitment	8	6	6	0	2
TOTAL	71	41	41	0	30
			100%		

Summary of Findings

19. Of the eleven audit projects that have been followed-up one – the Sustainable Sheppey Project – received an adverse assurance rating of **limited**. The service has worked hard to address the issues raised in the audit, and to implement all of the recommendations falling due by the 30 September 2014. We have re-tested the controls as part of the follow up and conclude that the controls now provide a **substantial** level of assurance. As this review was conducted using the 2013/14 assurance ratings, we have for continuity, re-assessed the level of assurance as per the previous levels.
20. The Council has successfully implemented all high priority recommendations which were due before 30 September 2014.
21. This is a highly creditable achievement and demonstrates audit and services working closely together to help improve the way the Council conducts its business.
22. We will follow up actions due after 30 September, including those arising as we complete our 2014/15 audit plan, later in the year. We will provide a final position to Members as part of our Annual Review in June 2015.

Corporate Governance

23. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
24. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or officers through whistleblowing and the Council's counter fraud and corruption arrangements.
25. We also prepared a response alongside partners on behalf of the four authorities to the CLG consultation on secondary legislation following on from the Local Audit and Accountability Act 2014. The consultation covered areas such as:
 - Applying the legislation to smaller authorities (such as parishes),
 - Arrangements for allowing collective procurement including the rules around using a 'specified person' to arrange and monitor audit provision,
 - Timetable for accounts publication including bringing the publication date forward from 30 September to 31 July, Rights of access for local authority electors, including harmonising a single inspection window and
 - Transparency Code for smaller bodies.
26. Our response to the consultation made the following main points:
 - Any change to the date of the sign off accounts must balance the benefits against the costs. In a continuing time of financial restraint in the public sector, it is timely to consider the complexity of accounts while proposing earlier closedown. Reduced timescales are difficult but achievable, however will require assistance from CIPFA to stem and turn back the growth of local authority financial statements.
 - The Regulations will need to ensure authorities are sufficiently informed to take the irrevocable opt-in/out decision [to allow a specified individual to select an auditor and audit fee on its behalf], including setting out clearly how a specified person will manage and control its costs.
 - We feel there is no pressing need to alter current public inspection arrangements, save the moves to online advertisement and streamlining to remove auditor involvement.
 - The present publication of expenditure by local authorities is working well and enforcing through regulation will risk disrupting an effective process.
 - We welcome general moves towards increasing 'online default' in information publishing.

27. Government response to the consultation was expected in October 2014 but, at the time of compiling this report, has not been published. We will continue to update the Committee on developments in local government audit.
28. We were also commissioned by the three MKIP Chief Executives (Maidstone, Tunbridge Wells and Swale) to complete a project review examining implementation of the Planning Support shared service. This review will be reported separately to the MKIP Board on 10 December with a summary report to Overview & Scrutiny Task & Finish Group on 8 December.

Counter Fraud & Corruption

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

Investigations

30. During the first half of 2014/15 we have been involved in one large scale investigation. We provide a separate report to the Committee outlining our conclusions from that investigation in the restricted papers of this meeting. In addition to this, we have conducted 2 smaller scale investigations:

Smaller Scale Investigation 1

31. We supported an investigation into a complaint making allegations against officers use of personal client data. We examined the service area and conducted interviews with staff to seek evidence of whether the allegation could be substantiated.
32. We concluded that the allegation could not be substantiated and reported that conclusion to the complainant who provided no additional evidence. Nevertheless, the service took the opportunity to remind all officers on the importance of data security, personal and professional declarations, and safeguarding customer information.

Smaller Scale Investigation 2

33. In August we were asked to investigate a report from the Department for Work and Pensions identifying a suspected security breach. According to the report an employee had used the secure DWP Customer Information System to access records relating to a family member. This is a breach of the confidentiality agreement between the Council, the Employee and the DWP which allows the Council to access DWP data.
34. We investigated the suspected breach and confirmed the DWP's report. We did not identify any other breaches and concluded that the breach was an isolated incident. While our work was underway the Council took action to address weaknesses within its internal processes and reminded officers of the need to keep full records support their access to personal data held by the DWP.

Whistleblowing

35. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
36. We received one disclosure in the first half of the year which formed the basis of our large scale investigation referenced above.

Investigation Liaison Protocol

37. In July we established a joint protocol with colleagues in Human Resources setting out roles and responsibilities in the event of matters arising that might require joint or parallel investigations. The purpose of the protocol is to ensure that in the event of an investigation we work seamlessly to ensure that the right outcomes are achieved for the Council. We have seen the benefits of the protocol already in assisting the Council in pursuit of efficient and effective investigations.

Fraud Risk Review

38. We have conducted an assessment at one of the partner Authorities against the CIPFA Counter Fraud Code published in October 2014 (though available in draft since July). While the outcomes of the assessment are not directly comparable to Swale, the assessment framework has enabled us to gain a much clearer understanding of what is expected by the Code.
39. The Council must make a compliance declaration against the Code in its 2014/15 Annual Governance Statement. We will be working with the Council for the remainder of the year to examine its Counter Fraud arrangements and, where necessary, strengthen the position to achieve adherence with the Code.

National Fraud Initiative

40. We have continued as co-ordinator of the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data, securely, to the Audit Commission. Members may wish to note that the NFI regime will survive the end of the Audit Commission in March 2015 as it will become part of the Cabinet Office's responsibilities.
41. The 2014/15 NFI exercise includes the following services:
 - Creditors
 - Payroll
 - Housing Benefits
 - Licensing
 - Parking
 - Insurance

42. The Audit Commission will release matches in January 2015 for investigation. We will report any outcomes in the annual audit report to the Audit Committee later in the year.

Audit Commission Fraud Survey 2014

43. We coordinate and complete the survey and submit the information to the Audit Commission in May each year. There were no issues of concern reported. The results of the survey form part of the Audit Commission's annual publication "Protecting the Public Purse".

Attempted Frauds

44. So far this year we have also helped to investigate a number of attempted frauds across the partner sites. Following on from these investigations, we have provided guidance and support across the partnership sites to raise awareness and help prepare officers on how to identify and respond so these threats should they occur.

45. Recent attempts include:

- A fraudulent e-mail purporting to be from the Chief Executive was sent to the Finance department requesting a payment be made. The Council's robust financial procedures meant that the request went no further, and through the diligence of officers was highlighted immediately. The IT department traced the original email address and a notification was sent to officers to remain diligent.
- Phoney requests to change bank details of suppliers – Councils have received a number of phoney requests to change supplier bank details. These are an increasingly common means of attempting fraud; seeking to misdirect a council in routing a payment to the fraudster's account rather than to the genuine supplier. The controls in place over the changing supplier bank details are strong, and officers independently verify any requests to change standing data. An all staff message was sent out across the Council to reinforce the needs for strong financial controls, and to thank the officers for identifying and dealing with the attempted fraud so quickly and effectively.

Risk Management

46. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
47. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
48. The Council's Strategic Risk Register was adopted by Cabinet on 29 May 2014, after review by the Audit Committee in March 2014. The strategic risk register outlines five risks:
 - Risk Scenario 1 - Impact of welfare reform and wider economic pressures
 - Risk Scenario 2 - Regeneration and place shaping
 - Risk Scenario 3 - Achieving a balanced budget across the medium term financial plan period 2014/15 – 2016/17
 - Risk Scenario 4 - Transforming to meet the financial environment
 - Risk Scenario 5 - Safeguarding People
49. Each risk has been allocated a risk owner and they will be creating action plans during 2014/15 to detail the controls that the Council has in place to effectively manage each risk to an acceptable level.
50. The Council plans to revisit and update its strategic risks in 2015/16, to align to any changes in corporate priorities.
51. More widely we are currently working with the Council to help improve the overall process and clarify the role of the audit service in assisting the Council's risk management. As part of this work, we will work with members and officers to develop a new risk management policy and strategy that will better guide the Council prior to reviewing and refreshing its strategic risks as well as providing clearer management for key operational risks. We will update the Committee as this work progresses.

Mid Kent Audit Service Update

52. During September we agreed a refreshed collaboration agreement between the four Mid Kent Audit authority partners (Maidstone, Swale, Ashford and Tunbridge Wells). All four partners have re-affirmed their commitment to the partnership, and secured the arrangements for the next four and half years. The review and refresh of the collaboration agreement enabled the following improvements:
- Transfer of officers to one single employee (Maidstone).
 - Creation of a single shared budget – bringing with it greater opportunity for investment in training and development.
 - Re-affirming the role Internal Audit has with regards to counter fraud and risk management.
 - A commitment to data sharing between the Councils; allowing us to more clearly highlight and report learning and good practice.
53. In June we advertised a secondment opportunity across all 4 authorities, and were able to successfully appoint into the role an officer from the Maidstone Finance team. This was the first time that such an opportunity had been offered, and has been a great experience for us. The service has benefited greatly by having an experienced professional from within the Council, and the individual has been able to develop internal audit skills and insight that would not have otherwise been possible.
54. Looking forward, we aim to continue to grow the service by reinstating the career grade position dormant for more than five years. This will allow us to develop an individual within the team through to a professional qualification.
55. Three members of the team are currently studying towards professional internal audit qualifications with the Institute of Internal Auditors. We are pleased to report a 100% success rate within the team on IIA exams in 2014/15 and hope to build on that during 2015/16, looking to end that year with more than half the team holding a professional qualification. Also we have a member of the team studying towards the Certificate in International Risk Management that will give us more specialised knowledge and expertise in the field of risk management.
56. The successful completion of professional studies for the team will mean that Mid Kent Audit will hold qualifications in the following areas:
- Internal Audit
 - Finance
 - Counter fraud and investigation
 - Risk Management
57. Both the Head of the Partnership and Swale Audit Manager are grateful for the continuing efforts of the audit team who have worked extremely hard over the last six months during a period of significant change and transition. The achievements and improvements in

service standards would not have been possible without their continued commitment, determination and highest levels of professionalism.

Performance

58. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Audit Board (with Mark Radford as Swale’s representative) considers these measures at each of its quarterly meetings, and they are also consolidated into reports submitted to the MKIP Board (including the Council’s Chief Executive and Leader).
59. Below is an extract of the most recent such performance report. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.
60. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	Outturn	Target & Commentary
Customer satisfaction overall	100%	Based on customer satisfaction survey circulated with each completed audit project.
Customer satisfaction with audit conduct	100%	Based on customer satisfaction survey.
Customer satisfaction with auditor skills	100%	Based on customer satisfaction survey
Chargeable days	72%	Based on the proportion of available days spend on productive work rather than administration, training and so on. General target in local government audit is 70%.
Audits completed on time	36%	Proportion of individual reviews completed according to timescales agreed at the outset of the audit. This is a new practice introduced in 2014/15 and forecasts have not taken adequate account of barriers such as staff availability, but we are developing more flexible approaches in response.
Audits completed on budget	41%	Proportion of individual audit reviews completed within an agreed days budget as set out in the audit plan. This has been impacted by a move to comprehensive time recording which means manager time features in the outturn but not in the budget, but still represents an improvement on the equivalent 2013/14 figure (18%).
Draft report timeliness	12 days (median)	Our target is to provide a draft report within 10 working days of completing fieldwork. This is a new target and drafts are a new addition to the reporting process which is still becoming established.
Final report timeliness	5 days (median)	Our target is to provide a final report within 5 working days of the closing meeting to agree recommendations.
Conformance to Public Sector Internal Audit Standards	50/56	As per report to Members in March 2014. We will be re-assessed by the Institute of Internal Auditors in early 2015 but are currently on track to achieve their recommendations before the end of 2014.
Recommendations implemented on time	100%	As reported elsewhere in this update.

Acknowledgements

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

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2014/15

<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>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>	Effective Service
<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>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>	Ineffective Service

Recommendation Ratings 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.

Appendix II:

Audit Plan Progress 2014/15

No.	Q	Audit Project	Not Yet Started	Brief Agreed	Fieldwork Commenced	Draft Report	Final Report	Assurance Rating
		Audit Assurance Projects						
1	Q1	Business Rates Retention Scheme (Risk)		u	u	u	u	SOUND
2	Q1	Members' Allowances Scheme		u	u	u	u	SOUND
3	Q1	Housing Allocations Policy		u	u	u	u	SOUND
4	Q1	Management of Misc. Cash		u	u			
5	Q2	Council Tax (Systems Audit)		u	u			
6	Q2	Risk Management Framework		u	u			
7	Q2	Housing Benefits		u	u			
8	Q2	Treasury Management		u				
9	Q3	Safeguarding People		u	u			
10	Q3	ICT: Service Desk		u	u			
11	Q3	Commissioning Framework - Implementation	u					
12	Q3	Cashless P&D Implementation	u					
13	Q3	Accounts Payable (Creditors)	u					
14	Q3	Cash Receipting System - Project Assurance	u					
15	Q3	Corporate Governance	u					
16	Q3	Homelessness: Temporary Accommodation	u					
17	Q4	Business Rates (Systems audit)	u					
18	Q4	General Ledger: Budgetary Control	u					
19	Q4	Freedom of Information	u					
20	Q4	Asset Transfer Policy Review	u					
21	Q4	Contract Management: Waste Collection & Street Cleaning	u					
22	Q4	Repair & Renew Grant - Sign-off	u					
		Other Projects						
23	Q2	Licensing Investigation		u	u	u	u	COMPLETE
24	Q2	National Fraud Initiative		u	u			PHASE 1

Changes to the Audit Plan

The Internal Audit plan needs to be flexible and reactive to the changing risks of the Council. As the needs and priorities of the Council change, assurance work is re-directed to ensure that it remains relevant and valuable. The plan is therefore reviewed regularly, and projects are removed, added or deferred accordingly.

Following consultation and agreement with management, we have made the following minor changes to our audit plan.

No.	Head of Service	Title	Outcome	Reason
1	Head of Commissioning & Customer Contact	Street Cleansing	MERGED	This audit will be included within the scope of Waste Collection audit (Q4)
2	Head of Property Services	Commercial Property Investment	REMOVED	The project intended as the focus of audit review has been deferred until 2015/16.
3	Head of Finance	Repair & Renew Grant	ADDED	Internal Audit sign off is a requirement of the grant claim.

This page is intentionally left blank

SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme 2014/15

DRAFT



Statement of Purpose:

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, including approval of the annual statement of accounts.

Audit Committee Members:

	<p>Chair: Councillor Pat Sandle Party: Conservative Ward: Leysdown and Warden Phone: 01795 510400 Email: patriciasandle@aol.com</p>		<p>Vice Chair: Councillor Andy Booth Party: Conservative Ward: Minster Cliffs Phone: 07912 464213 Email: andybooth@swale.gov.uk</p>
	<p>Councillor John Coulter Party: Conservative Ward: St Anns Phone: 01795 539046 Email: johncoulter@swale.gov.uk</p>		<p>Councillor Adrian Crowther Party: Ungrouped Member Ward: Minster Cliffs Phone: 01795 874418 Email: Adrian.crowther@kent.gov.uk</p>
	<p>Councillor Ed Gent Party: Conservative Ward: Murston Phone: 07955 111981 Email: e.gent@sky.com</p>		<p>Councillor Nicholas Hampshire Party: Conservative Ward: Borden Phone: 01795 477560 (evening only), 07739 108756 (daytime) Email: nicholashampshire@hotmail.com</p>

	<p>Councillor Angela Harrison Party: Labour Ward: Sheerness West Phone: 01795 665029 Email: angelaharrison@swale.gov.uk</p>		<p>Councillor Peter Marchington Party: Conservative Ward: Queenborough and Halfway Phone: 01795 661960 (evenings only) Email: petermarchington@hotmail.co.uk</p>
	<p>Councillor Nick Williams Party: Labour Ward: Murston Phone: 01795 479835 Email: nick_p_williams@yahoo.co.uk</p>		

Audit Committee Terms of Reference

1. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
3. Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Internal Audit
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
10. Approve the Annual Statement of Accounts.
11. Present an annual report to the Executive on exceptions and highlights throughout the year.

Work Programme:

Date of Meeting	Title of Report	Key Officer Contact
<i>11 June 2014</i>	Internal Audit Annual Report 2013/14	Rich Clarke
	Annual Governance Statement	Nick Vickers
	Audit Committee Annual Report	Rich Clarke
	Fee Letter 2014/15	External Audit
	Work Programme	Democratic Services
	Internal Audit 2014/15; Reporting refresh	Rich Clarke
<i>17 September 2014</i>	Benefit Fraud Annual report 2013/14	Filmer Wellard
	Annual Governance Report and Annual Accounts 2013/14	Nick Vickers
	Treasury Management Annual Review	Nick Vickers
<i>10 December 2014</i>	Audit Committee Work Programme	Democratic Services
	Treasury Management Half Year Review	Nick Vickers
	Annual Audit Letter	External Audit
	Audit Committee Update	External Audit
	Internal Audit Interim Report	Rich Clarke
	Investigation Summary Report	Rich Clarke
	Audit Committee Work Programme	Democratic Services
<i>25 March 2015</i>	Internal Audit Plan 2015/16	Rich Clarke
	Internal Audit Partnership - progress reports	Rich Clarke
	Strategic Risk Register and Action Plans	Rich Clarke
	Certification of Claims and Returns	External Audit
	Audit Plan and Progress Report	External Audit
	Audit Committee Work Programme	Democratic Services

By virtue of paragraph(s) 1, 3, 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank