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AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 9 December 2015

Time: 7.00 pm

Venue: Committee Room, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Andy Booth (Vice-Chairman), Adrian Crowther, Mick Galvin, Nicholas Hampshire (Chairman), Harrison, Alan Horton, Nigel Kay, Samuel Koffie-Williams and Peter Marchington

Quorum = 3

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- | | |
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| | Pages |
| 1. Apologies for Absence and Confirmation of Substitutes | |
| 2. Declarations of Interest | |
| <p>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.</p> <p>The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:</p> <p>(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.</p> <p>(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.</p> <p>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.</p> | |
| 3. Minutes | |
| <p>To approve the Minutes of the Meeting held on 21 September 2015 (Minute Nos. 225 - 229) as a correct record subject to an amendment to</p> | |

Minute No. 227 to change the word 'resolved' to 'recommended'.

Part A Report for Recommendation to Council

4. Treasury Management Half Year Review 1 - 12

Part B Reports for the Audit Committee to decide

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7. Internal Audit Interim Report 35 - 58
8. Audit Committee Work Programme 59 - 64

Issued on Tuesday, 1 December 2015

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	
Meeting Date	9 December 2015
Report Title	Treasury Management Half Year Report
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
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	To note the performance information in this report.

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 2015/16, including compliance with treasury limits and Prudential Performance Indicators. The report will go to Council on 27 January 2016.
- 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

Market Environment

- 2.1 The main external issue in the first six months of the year has been the diminishing likelihood of base rate increases in the UK. Arlingclose, the Council's treasury advisers, had a long-term position that rates would rise in May 2016. They have recently pushed this back to September 2016 and then very small step increases to 1.75% in September 2018. The longer for lower position reflects the underlying headwinds which the economy faces – in particular from the China slowdown and Eurozone stagnant economic growth. As the EU referendum and a possible Brexit come to dominate short-term horizons this will be an increasingly important issue for the Bank of England to factor into their thinking.

- 2.2 The annual rate for Consumer Price Inflation (CPI) has hovered around 0.0% to 0.1% after turning marginally negative in April. The Bank of England are forecasting inflation increasing to around 2% in the next 18 months. The index is bound to see an increase as the large falls in oil and petrol prices 12 months ago drop out – but underlying inflationary pressures do remain benign.
- 2.3 Equity markets performed poorly in the July to September quarter but have bounced back strongly since then. The volatility of equity markets means that we continue to avoid any products with an equity component.

Borrowing

- 2.4 The Council continues to be debt free. Borrowing will be undertaken if we proceed with the construction of a multi-storey car park in Sittingbourne.

Investments

- 2.5 The counterparties agreed by Cabinet and Council earlier this year when the 2015/16 Treasury Strategy was approved are:

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken	£3m
Leeds Building Society unsecured deposits	£1m
Close Brothers unsecured deposits	£1m
Small UK building societies unsecured deposits meeting Arlingclose preferred criteria	£250k each or £1m in aggregate
Major Overseas banks unsecured deposits (to be determined with Arlingclose)	£1m limit per bank
Short Term Money Market Funds	£1.5m each
CCLA LAMIT Property Fund	£1.5m in aggregate
Supranational bonds	£6m in aggregate
Corporate bond funds	£3m in aggregate
Absolute return funds	£3m in aggregate

- 2.6 For the major UK banks and building societies we have left the individual limit at £3m. This reflects that the underlying fundamentals of the banks have generally improved and the risk of unsecured deposits does seem to be relatively lower.
- 2.7 Returns on unsecured deposits remain low although very recently some 1% rates have become available for three month deposits.
- 2.8 The £1.5m investment in the CCLA Property Fund has produced good returns of 4.73% for the first six months. The Fund is now £500m and we will look to add to it in the 2016/17 Treasury Strategy.

- 2.9 Investments held at 30 September 2015 can be found in Appendix I.
- 2.10 The Council did not need to borrow to cover cash flow purposes in the period.
- 2.11 Interest income received for the first half of 2015 was £40,000 above the original budget of £42,700.
- 2.12 For the six months to 30 September 2015, the Council maintained an average sum invested of £34m compared with an original budget of £30m, and an average rate of return of 0.63% compared to a budget of 0.30%.
- 2.13 The results for the six months to 30 September 2015 show that the Council achieved 0.27% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.13% average return rate above the Bank of England Base Rate.

Compliance with Prudential Indicators

- 2.14 The Council can confirm that it has complied with its Prudential Indicators for 2015/16 which were set in February as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members.
- 2.15 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

- 3.1 No changes are proposed at this stage.

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.
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 2015
- Appendix II: Prudential and Treasury Management Indicators

Investments as at 30 September 2015

Counterparty/ Country	Long-Term Rating (Moody's)	Balance Invested as at 30 September 2015 £'000
Lloyds TSB Bank Plc	A1	3,000
Standard Chartered Bank	Aa2	3,000
Santander UK Plc (Call Account)	A1	3,000
Svenska Handelsbanken	Aa2	3,000
Barclays Bank Plc	A2	3,000
Nordea Bank	Aa3	1,000
Debt Management Office	Aa1	3,000
Nationwide Building Society	A1	3,000
Total Banks and Building Society		22,000
Goldman Sachs Money Market Fund	Aaa-mf	1,500
Aberdeen 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	820
Morgan Stanley Money Market Fund	Aaa-mf	1,500
CCLA Property Fund	Aaa-mf	1,500
Total Money Market and Property Funds		9,820
Gross Total		31,820

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 2015/16

Investments	Balance on 01/04/2015 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2015 £'000	Average Rate %	Average Life
Short Term Investments	22,300	114,940	(106,920)	30,320	0.63	58 days
Long Term Investments	1,500	0	0	1,500	4.73	6 years
Total Investments	23,800	114,940	(106,920)	31,820		
Increase/(Decrease) in Investments				8,020		

Prudential and Treasury Management 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.

Gross Debt and the Capital Financing Requirement	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Gross CFR	5,106	5,145	4,833	4,524
Less: Other Long Term Liabilities	(753)	(774)	(623)	(376)
Borrowing CFR	4,353	4,371	4,210	4,148
Less: Existing Profile of Borrowing	0	0	0	0
Cumulative Maximum External Borrowing Requirement.	4,353	4,371	4,210	4,148

The Authority has no external debt.

3. 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	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	2,219	1,103	15	15

Capital expenditure will be financed follows:

Capital Financing	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital receipts	528	30	0	0
Government Grants	1,270	1,058	0	0

Prudential and Treasury Management Indicators

Capital Financing	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Revenue contributions	421	15	15	15
Total Financing	2,219	1,103	15	15

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	2014/15 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %
Total	1.58	1.70	1.67	1.71

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	2014/15 Actual £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total CFR	5,106	5,145	4,833	4,524

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 31/03/2015	£'000
Borrowing	0
Other Long-term Liabilities	753
Total	753

Prudential and Treasury Management Indicators

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	2014/15 Actual	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£	£	£	£
Increase / (Decrease) in Band D Council Tax	(0.01)	(0.01)	0.00	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 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	£'000	£'000	£'000	£'000
Borrowing	5,000	7,000	7,000	7,000
Other Long-term Liabilities	2,000	2,000	2,000	2,000
Total	7,000	9,000	9,000	9,000

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.

Prudential and Treasury Management Indicators

Operational Boundary for External Debt	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	2,000	6,000	6,000	6,000
Other Long-term Liabilities	992	774	623	376
Total	2,992	6,774	6,623	6,376

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2015.

9. Adoption of the CIPFA Treasury Management Code

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

The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition on 22 February 2012.

10. 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 30/09/15 %	2015/16 Approved Limit %	2016/17 Approved Limit %	2017/18 Approved Limit %
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-50	-100	-100	-100
Upper Limited for Fixed Interest Rate Exposure	-50	0	0	0
Interest on variable rate borrowing	0	100	100	100
Interest on fixed rate borrowing	-50	-100	-100	-100
Upper Limited for Fixed Interest Rate Exposure	-50	0	0	0

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

Prudential and Treasury Management Indicators

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 30/09/15	Lower Limit for 2015/16	Upper Limit for 2015/16
	%	%	%
Under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and above	0	0	100

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 2015.

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.

Prudential and Treasury Management Indicators

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 for Periods Longer than 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	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	9,000	9,000	9,000
Actual	1,500	-	-

14. Investment Benchmarking for the Six Months to 30 September 2015

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Rate	Average 7 day LIBID Rate
0.63%	0.30%	0.50%	0.36%

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The Annual Audit Letter for Swale Borough Council

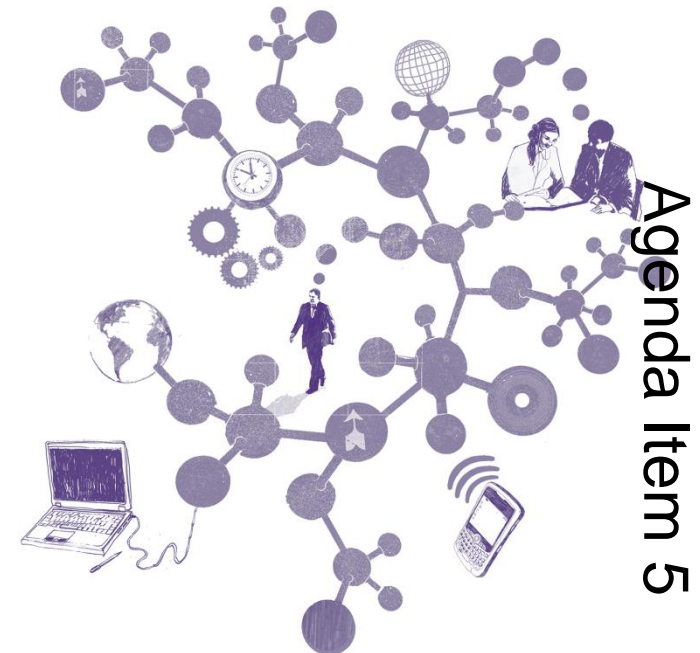
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Agenda Item 5

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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 2015.

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

Financial statements audit (including audit opinion)	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report to the Audit Committee on 21 September 2015.</p> <p>The Council's financial statements were produced to a very high standard. Only a small number of audit amendments were required.</p> <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 28 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
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Key messages continued

<p>Value for Money (VfM) conclusion</p> <p>Page 16</p>	<p>We issued an unqualified VfM conclusion for 2014/15 on 28 September 2015.</p> <p>The Council has robust arrangements for financial governance and well-established processes for budgetary control. It has a strong focus on financial management issues, with a history of delivering financial savings and reviewing the cost-effectiveness of services. As the Council continues to face financial pressures associated with reductions in government grant it will need to maintain this focus to deliver its financial plans 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 2015.</p>
<p>Certification of housing benefit grant claim</p>	<p>For the financial year 2014/15 we are required to certify the Council's housing benefit subsidy claim, which has a certification deadline of 30 November 2015. Our work to certify this claim is still in progress.</p>
<p>Audit fee</p>	<p>Our audit fee for 2014/15 was £80,985, excluding VAT, unchanged from 2013/14.</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 £9,790, excluding VAT.</p> <p>Further detail is included within Appendix A.</p>

Appendix A: Reports issued and fees

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

Fees for audit services

	Per Audit plan £	Actual £
Council audit	80,985	80,985
Housing benefit grant certification fee*	9,790	TBC
Total audit fees	90,775	TBC

Fees for other services

Service	Fees £
Audit related services	None
Non-audit related services	None

*Our work on the Council's 2014/15 housing benefit claim is still in progress.

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Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Report	January 2016 (planned)



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Audit Committee Update

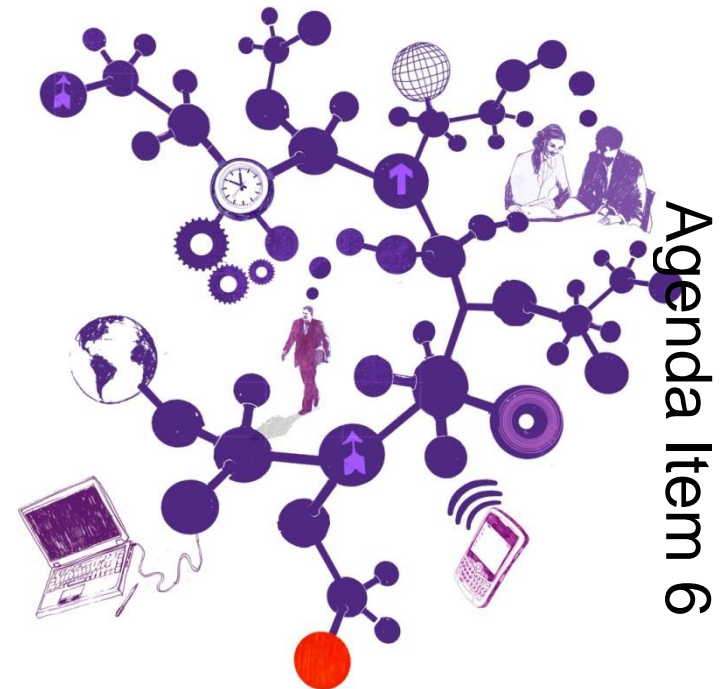
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Introduction

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

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Planned work for 2015/16

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 2016
<p>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 2015-16 financial statements.</p>	March 2016
<p>Accounts audit Work to complete our audit of the 2015-16 financial statements.</p>	July 2016
<p>Value for Money (VfM) conclusion Work to reach a conclusion on whether the CCGs have made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>	February – July 2016

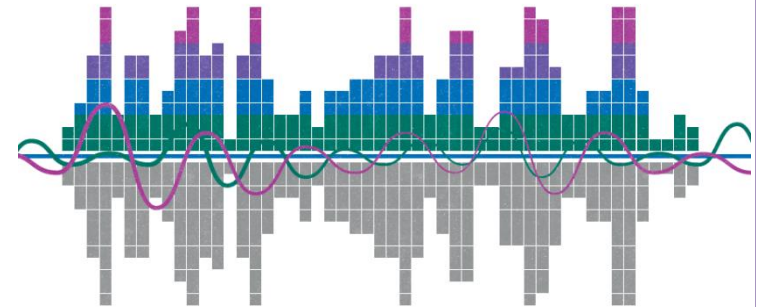
Turning up the volume: The Business Location Index

Grant Thornton market insight

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

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

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

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

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

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

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

Making devolution work: A practical guide for local leaders

Grant Thornton market insight

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

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

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

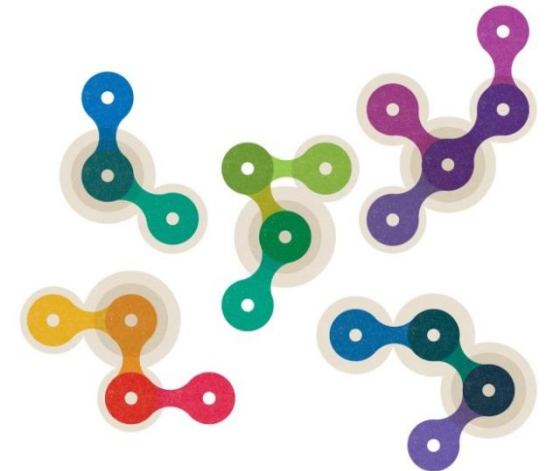
In particular, our report seeks to help local leaders think through the fundamental questions involved:

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

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

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



Growing healthy communities: The Health and wellbeing index

Grant Thornton market insight

Our Place Analytics team reveals how collaboration between local authority stakeholders can help address health quality determinants (social, economic and environmental) and result in improved health outcomes (quality of lifestyle and health conditions).

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

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

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

Our report, Growing healthy communities: Health and Wellbeing Index, can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/growing-healthy-communities-health-and-wellbeing-index.pdf>

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



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

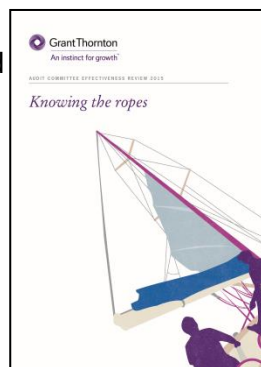
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived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

The report is structured around four key issues:

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

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

Our key messages are summarised opposite.



Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

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

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

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

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

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

Further details are available from your Engagement Lead and Audit Manager



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

Local government issues

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

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

Challenge question

Have members been briefed on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

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

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

Challenge question

Have members been briefed on the government's new homes announcements and their likely impact on the Council?

Improving efficiency of council tax collection

Local government issues

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

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

Challenge question

Have members been briefed on the government's council tax collection consultation and the Council's response to it?

Code of Audit Practice

National Audit Office

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

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

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

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

The NAO has supplemented the new Code with detailed auditor guidance in specific areas. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015. The guidance includes the following.

- The legal and professional framework
- Definitions of what constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Guidance Note AGN03 is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf>

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Audit Committee Meeting	
Meeting Date	9 December 2015
Report Title	Interim Internal Audit Report 2015/16
Cabinet Member	Cllr Duncan Dewar-Whalley
SMT Lead	Mark Radford
Head of Service	Rich Clarke
Lead Officer	Russell Heppleston
Key Decision	No
Classification	Open
Forward Plan	Reference number: N/A
Recommendations	1. The Committee notes and comments as appropriate on progress against the internal audit plan and findings to date.

1 Purpose of Report and Executive Summary

- 1.1 The report provides an update to the Committee on work conducted by Mid Kent Audit in pursuance of the audit plan agreed by this Committee in March 2015. It also provides commentary on the broader objectives of the service in helping to ensure good governance at the Council.

2 Background

- 2.1 Internal audit has a statutory basis as a service through the Accounts & Audit Regulations 2015. Its principal objective is to examine and evaluate the effectiveness of the Council's systems of internal control, risk management and corporate governance.
- 2.2 This report provides evidence to the Committee in discharging its constitutional responsibilities for overseeing and commenting upon governance at the Council.
- 2.3 The report provides an interim position at approximately the mid-year point. A full annual report, including the Head of Audit Opinion, will come to this Committee in June 2016.

4 Alternative Options

- 4.1 The report is presented for information and comment rather than decision.

5 Consultation Undertaken or Proposed

- 5.1 The individual outcomes in this report arise from the detail of audit work, each of which was agreed after discussion with officers at the time reports were finalised. The report also reflects previous Committee feedback about the style and content of our summary reports in seeking to provide a broad range of information on the progress of the service.

6 Implications

This report is provided for information rather than decision and consequently raises no new issues and implications. Any and all comments from Members will be considered for future reports and, where applicable, within individual audit projects through the rest of the year.

Issue	Implications
Corporate Plan	Not applicable, see comment above.
Financial, Resource and Property	
Legal and Statutory	
Crime and Disorder	
Sustainability	
Health and Wellbeing	
Risk Management and Health and Safety	
Equality and Diversity	

7 Appendices

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

- Appendix I: Mid Kent Audit Interim Audit Report 2015/16.

8 Background Papers

This report follows on from the 2015/16 Audit Plan. That plan was agreed by the Audit Committee in March 2015 and is available among papers for that meeting.

The report also draws upon findings from individual audit reviews undertaken through the course of the year to date. This report presents that output in summary format, but full reports are available to Members on request.

MID KENT AUDIT

Interim Internal Audit Report

2015/16

Swale Borough Council



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:

"[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
3. The currently operating standards are the [Public Sector Internal Audit Standards](#) published by HM Government for effect from April 2013 across the UK public sector.
4. In addition to the public sector standards, an internal audit service must also abide by the sector's *Code of Ethics* and International Professional Practices Framework. These codes, a requirement of all internal audit services across public, private and voluntary sectors, are compiled by the Institute of Internal Auditors.
5. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:
 - Internal Controls: Including financial and non-financial controls.
 - Corporate governance: Including effectiveness of measures to counter fraud and corruption, and
 - Risk Management: Principally, the effectiveness of the Council's risk management framework.
6. This report provides an update to the Committee across all three areas covered in the opinion and the performance of the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

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

Internal Control

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

Audit Plan Progress

Productive Audit Days

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

Type of work	Plan Days	Q1/2 Days	Q1/2 %	Forecast Q4	Forecast %
Assurance Projects	301	131	44%	313	104%
Other Work	109	50	46%	104	95%
Total	410	181	44%	417	102%

11. Progress to date is largely in line with anticipated days spend, but a number of projects are in development and early stages which will be finalised as the year continues. This includes a set of projects examining the Council's financial processes which we held back to create space in the June-September period for external audit to undertake their work on the Council's financial statements.

Audit Review Findings to Date

12. We have completed to final report stage so far a total of nine audit projects, four of which were completed early enough in the year to have featured in our annual report to this Committee in July 2015. Our output from those reports² is included in that annual report.
13. Concentrating therefore on the five further reports issued in the period from July, we include below an extract from each report. We are pleased to report that officers have accepted our findings and

² The reports covered Income & Cash Collection, Accounts Payable, Business Rates and Waste Collection Contract.

begun work towards the agreed recommendations. We will follow up implementation of recommendations as noted below.

14. In addition to reports that have reached finalisation, we include in appendix II a summary of work in progress with expected reporting timescales.

	Review Type	Title	Assurance Rating
1	Service Review	Cashless Pay & Display Implementation	SOUND
2	Service Review	Homelessness & Temporary Accommodation	SOUND
3	Corporate Governance	Freedom of Information	SOUND
4	Consultancy	Planning Support: Project Gateway Review	[not assurance rated]
5	Core Finance System	Procurement	SOUND

Cashless Pay & Display Implementation

15. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with the cashless pay and display system.
16. The cashless pay and display system provided by Bemrose Mobile was successfully rolled out across Maidstone and Swale in October 2014. We tested the service by phone and app, and confirm effective operation in line with the contract. The system is fully integrated to the handheld devices used by parking attendants to enable effective enforcement.
17. We found two respects where operative practice is not in line with the contract: frequency and formality of contract monitoring meetings, and timely payment of income. The Service has highlighted both issues in a recent formal remediation notice issued to the Contractor but revised procedures are not yet agreed.

Homelessness & Temporary Accommodation

18. We conclude based on our audit work that the service has **SOUND** controls in place over the administration and management of temporary homeless accommodation.
19. The Council complies with its statutory duty to provide interim and temporary accommodation with appropriate arrangements to manage allocation. Controls exist to ensure periods of accommodation are checked and verified prior to payment.
20. Management of the Council-owned property intended to provide temporary accommodation for homeless applicants is appropriately assigned. Our review against the property's business plan identified that the Council uses the property to house one family when the projected savings were based on three occupant households. The Council has not allocated separate budgets for the income and expenditure associated with operating the property, so we cannot confirm whether the Council is achieving projected savings.

Freedom of Information

21. We conclude based on our audit work that there are **SOUND** controls in place for achieving compliance with Freedom of Information requirements.
22. We established the Council has in place procedures and guidance to achieve compliance with the Freedom of Information Act. There are appropriate controls to administer responses to information requests, in accordance with agreed procedures. We identified no instances where the Council provided inaccurate or incomplete information.
23. Through the course of our testing we highlighted some areas to improve, in particular to ensure consistent application of agreed procedures and processes. In particular, our recommendations seek to reinforce procedures over compliance with statutory deadlines, and over FOI training requirements.

Planning Support: Project Gateway Review

24. The [project] Board has proceeded largely on the basis that the option originally put to TWBC cabinet – of a TWBC withdrawal leaving a two-way partnership – would be the most likely outcome. As a result the Board has sought to fully appraise in greater detail this single and most likely option. While other options have been considered at the early stages of the project, they have not received a similar depth of analysis and, in the case of the option 3; have not been considered at all.
25. No options have been considered that involve TWBC remaining in the partnership as this fell outside of the mandated scope of the project. The Board therefore has largely been an exercise in constructing a business case rather than appraisal of different options as originally mandated.
26. Within those constraints, though, the Board has operated diligently in seeking to obtain the best evidence it can, including commissioning external advice where a need is identified. Each work stream has provided evidence to inform the Board in its decision to pursue the chosen option.
27. The inherent lack of clarity in operating ahead of a formal decision means that some evidence relies upon assumptions and extrapolations which are difficult to pin down with certainty and are subject to wide error bars. This is particularly notable on information regarding human resource and finance considerations and data forwarded by parallel project groups operating in MBC and SBC.
28. However, we are satisfied that the Board has efficiently documented its processes meaning that those assumptions are, in general, apparent, open to fair challenge and not unreasonable.

Procurement

29. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with procurement.
30. The Contract Standing Orders (CSOs) underpin the Council's procurement activities. Detailed procedures and template documents are in place and help to guide and assist officers through the procurement process. Our testing identified only minor instances of non compliance which did not fundamentally thwart the CSOs objectives. The most notable of these suggest a need for the Council to ensure its contract templates align with its CSOs.
31. Although yet to conclude, we are satisfied that the Council's move to e-procurement is effective and reflects the CSO requirements. However, we encourage the Council to review the extent of access routinely given to system users to ensure adequate controls are maintained.

Follow-up of Internal Audit Recommendations

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

Project	Agreed Actions	Falling due by 30/9/15	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Housing Benefit Payments	16	16	16	0	0
Safeguarding	10	6	6	0	4
ICT Service Desk	8	8	8	0	0
Housing Benefit System	7	7	7	0	0
Freedom of Information	6	2	2	0	4
Waste Management Contract	3	2	2	0	1
Procurement	3	0	0	0	3
Income Controls	3	2	2	0	1
Members' Allowances	3	2	2	0	1
Homelessness & Temp Acom.	2	0	0	0	2
Cashless Pay & Display	1	0	0	0	1
TOTAL	62	45	45	0	17
		73%	73%	0%	27%

35. We note considerable progress made by managers in addressing the issues identified by our reports. With all 45 due recommendations implemented as agreed, the Council is 73% of the way to full implementation – exactly on track for delivery.

36. Of the 11 audit projects followed up, 2 originally received an assurance rating of **weak** or **poor** (or the 2013/14 nearest equivalent assurance level). We have previously advised Members in our 2014/15 annual report that 1 of these (ICT Service Desk) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **sound** (or the 2013/14 nearest equivalent).
37. We are pleased to note to Members that the Council has made sufficient progress in implementing recommendations arising from our review of Safeguarding that we have since also revised the assurance rating of that review to **sound**.

Next Steps

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

Corporate Governance

39. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
40. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
41. We attend the Council's Information Governance and Procurement Groups, as well as comment on all waivers requested against the Council's Contract Standing Orders.
42. In October 2015 CIPFA³ and SOLACE⁴ published a draft response to the consultation which had been open over the summer looking to replace the existing Good Governance Framework for Local Government which has been in place since 2006. This revised guidance, which the Council must follow in compiling its 2016/17 Annual Governance Statement, is based around seven key principles:
 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - Ensuring openness and comprehensive stakeholder engagement
 - Defining outcomes in terms of sustainable economic, social and environmental benefits
 - Determining the interventions necessary to optimise the achievement of the intended outcomes
 - Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - Managing risks and performance through robust internal control and strong public financial management
 - Implementing good practices in transparency, reporting and audit to deliver effective accountability.

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

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

43. In the New Year we will undertake a review considering the Council's readiness for reporting against these Governance principles.

Counter Fraud & Corruption

44. 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

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

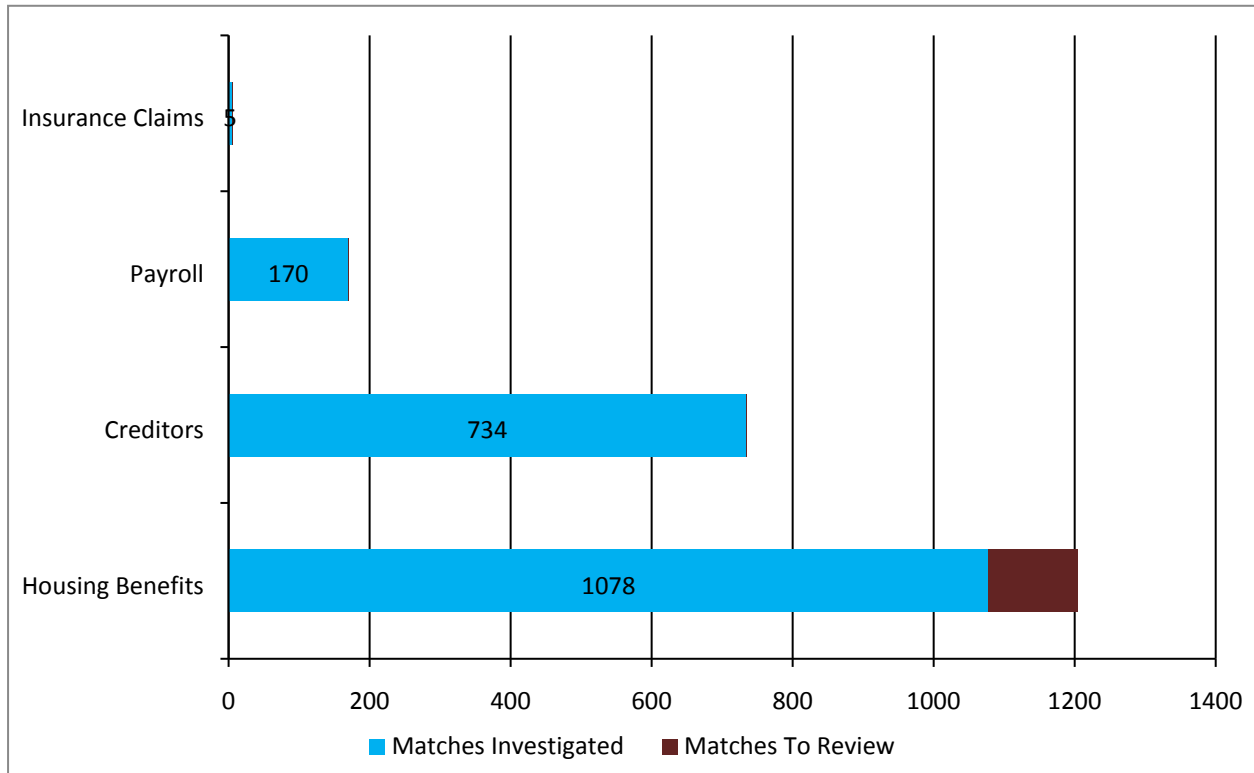
Whistle-blowing

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

National Fraud Initiative

47. 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. Since March 2015, the NFI exercise has been administered by the Cabinet Office.
48. The current NFI exercise has been releasing data in tranches since January 2015 and includes the following services:
- Housing Benefits (1,205 total matches)
 - Creditors (734 total matches)
 - Payroll (170 total matches)
 - Insurance Claimants (5 total matches)
49. Two further categories (Residents' Parking and Licensing) returned no matches for the Council.
50. The graph below plots progress to date. Note that at present the matches examined have identified 49 cases of fraud or error valued at £30,143. Cabinet Office guidance is that all matches should be investigated within the two year cycle of NFI data (so, by January 2017).

NFI Matches Investigation Progress



51. In keeping with the enhanced skill base of the audit team, and to ensure greater independence and efficiency in matches, Mid Kent Audit will be taking on direct examination of non-benefits matches (rather than just co-ordination) with the commencement of the next round of NFI.

Mid Kent Audit Counter Fraud Training

52. Our 2014 Fraud Risk Review indicated that, outside of the dedicated Benefits Fraud Team, the Council was limited in its Counter Fraud expertise. We have acted to address that need by increasing the skills and training within the audit service, including becoming one of the first audit teams in the country to contain team members possessing CIPFA accredited qualifications at Technician and (exam results permitting) Specialist level.
53. In 2016 we will be working with the Council and the revised Revenues Fraud Team to enhance the Council's approach to counter fraud.

Attempted Frauds

54. During this year we have also been made aware of an attempted fraud at another council involving the use of a 'spoofed' email account purporting to be that of a Council employee and requesting a bank transfer. Our investigation could not identify the culprit – 'spoof' emails are created easily enough and very difficult to trace – but we did examine the Council's controls and investigated to determine whether any similar attempts had been successful and undetected.
55. We did not identify any further such attempts which, coupled with successful operation of financial and IT controls, led us to identify this as a low fraud risk. Consequently, we have provided advice to finance teams on remaining vigilant and have reported the matter to the police but plan no continuing action unless there are further developments.

Risk Management

56. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
57. 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.
58. In October 2015 the Council's Senior Management Team agreed to adopt a new approach to risk management at the Council. The approach, which was also considered and agreed by members of the Council's Cabinet, was the culmination of six months enquiry and research investigating the Council's risk appetite and objectives from risk management.
59. In the new year we will be assisting the Council in establishing a *comprehensive risk register*. This will draw together three principal sources of risk:
60. Although the Council has embedded a comprehensive service planning approach, previous consideration of risk did not consistently draw together and consider risks originating from within services. While more traditional approaches tended to see such matters as purely operational, there are plenty of examples where operational issues, if not managed effectively, cause significant disruption to organisations as a whole.
61. Through the early part of 2016 we will be working with the Council's policy team to communicate the new approach to service managers and the build up to the 2016/17 service plan programme.
62. A separate key source of risk is the Council's corporate projects. As required by the Council's project management framework, each project will have compiled and maintained its own risk register and work is currently underway to draw these together.
63. Sitting across the service risks are those issues that could impede the Council's ability to achieve its corporate objectives. To help identify these risks we in audit will be leading a workshop in early 2016 with the Council's Senior Management Team. The outcomes will be reported through risk management reporting.

Mid Kent Audit Service Update

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

68. On these final qualifications, Mid Kent Audit has become one of the first audit services in local government to feature among its team both Specialist and Technician qualified members, which will provide significant assistance as we look to help authorities develop their counter fraud approach.
69. Also Frankie Smith, one of our new Audit Managers, completed her qualification with the IIA and is now a Chartered Internal Auditor. This brings to four the number of people within the team who hold CCAB⁵ equivalent qualifications.

Quality and Improvement

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

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

⁵ CCAB is the umbrella term for Chartered qualifications recognised by the Consultative Committee of Accountancy Bodies (CCAB) encompassing the major accounting and audit bodies in the UK. Such qualifications are the minimum requirement before an individual can hold a Head of Audit role according to the Public Sector Internal Audit Standards.

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

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

Performance

74. 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 (which includes the Council's Chief Executive and Leader).

75. Below is an extract of the most recent such performance report. After a year of data collection to set a baseline, we are operating in 2015/16 to agreed performance targets. Although the targets are year-end measures, we are pleased to report we are already, in most areas, performing at or near the stretch target level and will be looking to agree further improvement targets for 2016/17 early in the new year.
76. 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.
77. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

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

Acknowledgements:

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

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2015/16

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

Recommendation Ratings 2015/16

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

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

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

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

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

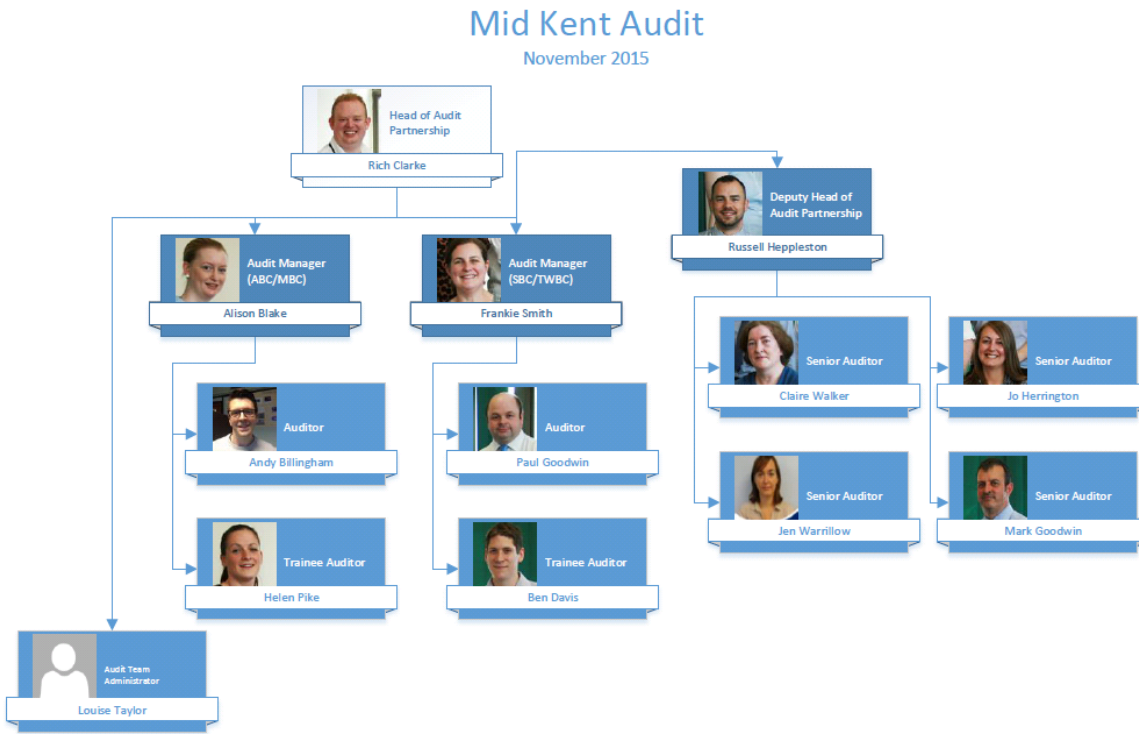
Appendix II: Audit Plan Progress 2015/16, Projects Only (for interim report)

Project Title	Project Type	Planning	Underway	Complete	Rating
Cashless Pay & Display Implementation	SR			X	SOUND
Homelessness & Temporary Accom.	SR			X	SOUND
Freedom of Information	CGR			X	SOUND
PS: Project Gateway Review (MKS)*	Adv			X	N/A
Procurement	CFS			X	SOUND
Corporate Projects Review	CGR		X		
Cemeteries	SR		X		
Housing – Front of House	SR		X		
Feeder Systems	CFS		X		
Register of Interests	CGR	X			
Customer Services	SR	X			
Learning & Development	SR	X			
Budget Management	CFS	X			
Performance Management	CGR				
Payroll (MKS)	CFS				
Discretionary Payments	SR				
ICT Networks (MKS)	SR				
Parking Enforcement	SR				
Data Protection	CGR				
Payments & Receipts	CFS				
Waste Collection Income	SR				
Corporate Governance	CGR				
Communications	SR				
Commercial Property	SR				
Grounds Maintenance	SR				

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

Project Title Key:
 (MKS) = Shared Service Project involving Tunbridge Wells BC
 * = addition to the plan as originally approved in March 2015

Appendix III: Mid Kent Audit Team Structure November 2015



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

SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme

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Agenda Item 8

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 Nicholas Hampshire Party: Conservative Ward: Borden and Grove Park Phone: 01795 477560 (evening only), 07739 108756 (daytime) Email: nicholashampshire@hotmail.com</p>		<p>Councillor Andy Booth Party: Conservative Ward: Minster Cliffs Phone: 07912 464213 Email: andybooth@swale.gov.uk</p>
	<p>Councillor Adrian Crowther Party: UKIP Ward: Minster Cliffs Phone: 01795 874418 Email: Adrian.crowther@kent.gov.uk</p>		<p>Councillor Mick Galvin Party: UKIP Ward: Sheerness Phone: 01795 666903 Email: mickgalvin@swale.gov.uk</p>
	<p>Councillor Angela Harrison Party: Labour Ward: Sheerness Phone: 01795 665029 Email: angelaharrison@swale.gov.uk</p>		<p>Councillor Alan Horton Party: Conservative Ward: Homewood Phone: 01634 375332/07447 925760 Email: alanhorton@swale.gov.uk</p>

	<p>Councillor Nigel Kay Party: Conservative Ward: St Ann's Phone: 01795 531298/07710 487129 Email: nigelkay@swale.gov.uk</p>		<p>Councillor Samuel Koffie-Williams Party: Conservative Ward: Murston Phone: 07484274235 Email: samuelkwilliams@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>		

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>10 June 2015</i>	Internal Audit Annual Report 2014/15	Rich Clarke
	Annual Governance Statement	Nick Vickers
	Audit Committee Annual Report	Rich Clarke
	Fee Letter 2015/16	External Audit
	Benefit Fraud Annual report 2014/15	Ginny Wilkinson
	Work Programme	Democratic Services
<i>21 September 2015</i>	Annual Governance Report and Annual Accounts 2014/15	Nick Vickers
	Annual Treasury Management Report 2014/15	Nick Vickers
	Audit Committee Work Programme	Democratic Services
<i>9 December 2015</i>	Treasury Management Half Year Review	Nick Vickers
	Annual Audit Letter	External Audit
	Audit Committee Update	External Audit
	Internal Audit Interim Report	Rich Clarke
	Audit Committee Work Programme	Democratic Services
<i>9 March 2016</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
	Public Sector Internal Audit Standards	Rich Clarke
	Audit Committee Work Programme	Democratic Services

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