

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 21 June 2017

Time: 7.00 pm

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

Membership:

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

Quorum = 3

Pages

1. Emergency Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park. Nobody must leave the assembly point until everybody can be accounted for and nobody must return to the building until the Chairman has informed them that it is safe to do so; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes
3. 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 Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

4. Minutes

To approve the Minutes of the Meeting held on 8 March 2017 (Minute Nos. 1232 - 1239) as a correct record.

5. Internal Audit Annual Report 2016/17 1 - 36
6. Annual Governance Statement – to follow
7. Audit Committee Annual Report 2016/17 37 - 50
8. Fee Letter 2017/18 51 - 54
9. 2016/17 Audit Plan - External Audit 55 - 72
10. Audit Update Report 2016/17 73 - 84
11. Work Programme 2017/18 85 - 90

Issued on Monday, 12 June 2017

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

**Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

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Audit Committee Meeting		Agenda Item: 5
Meeting Date	21 June 2017	
Report Title	Annual Internal Audit Report & Opinion	
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance	
SMT Lead	Nick Vickers: Chief Financial Officer Steve McGinnes: Mid Kent Services Director	
Head of Service	Rich Clarke: Head of Audit Partnership	
Lead Officer	Rich Clarke: Head of Audit Partnership	
Key Decision	No	
Classification	Open	
Forward Plan	Reference number:N/A	
Recommendations	<ol style="list-style-type: none"> 1. The Committee notes the Head of Audit Partnership opinion. The opinion states that, in the view of internal audit, the Council's system of internal control, corporate governance and risk management arrangements have operated effectively during 2016/17. 2. The Committee notes the work underlying the opinion and the Head of Audit's assurance it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards. 	

1 Purpose of Report and Executive Summary

- 1.1 This report meets the Head of Internal Audit annual reporting requirements mandated by the Public Sector Internal Audit Standards (PSIAS). The report includes the Head of Audit Partnership's annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control which can be used to inform the Annual Governance Statement for 2016/17.
- 1.2 PSIAS, in particular Standard 2450: Overall Opinions, direct that the annual report must incorporate:
 - The annual internal audit opinion (see paragraphs 6 to 15 of the appendix),

- A summary of the work completed that supports the opinion (paragraphs 16 to 113 of the appendix), and
- A statement on conformance with PSIAS (paragraphs 120 to 123 of the appendix).

2 Background

2.1 Internal audit is a required service under Regulation 5 of the Accounts and Audit Regulations 2015. The principle objective of internal audit, under that Regulation is to:

... undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking in account public sector internal auditing standards and guidance.

2.2 As those charged with overseeing Governance, the Terms of Reference for this Audit Committee require it to:

...consider summaries of internal audit reports produced and review management action taken on associated recommendations. To consider and comment upon any items relevant to the internal audit function.

2.3 The overall scope of the Council's audit service – which is delivered as part of a four way partnership with Maidstone, Ashford and Tunbridge Wells – is set out in the Audit Charter and Annual Plan. The Charter and Plan for 2015/16 were agreed by this Committee in March 2016. This Committee also received an interim update on progress to date in November 2016.

2.4 We have completed the work set out in the plan, subject to modifications as described in accordance with PSIAS. Where there is work outstanding at the time of writing, it is sufficiently progressed that the Head of Audit Partnership is satisfied its conclusions will not materially affect the Head of Audit Opinion. The final conclusions of any work outstanding will be reported verbally at the meeting (if available) and/or included within the first interim update of 2017/18.

3 Proposals

3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in operation during 2016/17. Furthermore he is satisfied that the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, he is satisfied that the Council's risk management processes are effective. We ask the Audit Committee to note these opinions.

3.2 Please see the appendix for the full Annual Report for 2016/17 which includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.

4 Alternative Options

4.1 The role of the Audit Committee includes considering the Annual Report of internal audit as a required part of its purpose. We recommend no alternative course of action.

5 Consultation Undertaken or Proposed

5.1 All findings and recommendations identified within reviews are consulted on with the appropriate Head of Service and action plans are agreed with management to implement recommendations. The headline messages within the report are as discussed with the s151 Officer across the year, and have been communicated to the s151 Officer to assist with his preparation of the Council's Annual Governance Statement. The attached report is adapted for comments received.

6 Implications

This report is provided for information rather than decision and consequently raises no new issues or implications.

Issue	Implications
Corporate Plan	Not applicable
Financial, Resource and Property	Not applicable
Legal and Statutory	Not applicable
Crime and Disorder	Not applicable
Environmental Sustainability	Not applicable
Health and Wellbeing	Not applicable
Risk Management and Health and Safety	Not applicable
Equality and Diversity	Not applicable
Privacy and Data Protection	Not applicable

7 Appendices

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

- Appendix I: Annual Internal Audit Report & Opinion 2016/17 for Swale Borough Council

8 Background Papers

Full reports which inform the audit projects summarised within this annual report are available on request.

MID KENT AUDIT

Annual Internal Audit Report and Opinion

2016/17

Swale Borough Council



Introduction and Background

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. That mission, and the [code of ethics](#) and [Standards](#) which underpin it, encompass more than 200,000 professionals in all areas of business across the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations specify services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more exacting version of the global standards. Those Standards set demands for annual reporting:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work with reference to a collaboration agreement.
4. Within Swale BC during 2016/17 we have enjoyed complete and unfettered access to officers, records and systems to conclude our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Head of Audit Partnership Annual Opinion

6. I provide this opinion to Swale Borough Council (the Council) to inform its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2017.

Scope of responsibility

7. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
8. The Council has described key aspects of its internal control and risk management within its [Local Code of Governance](#) and its Risk Management Framework ([intranet](#)).
9. Internal controls are designed to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, it can only provide reasonable and not complete assurance of effectiveness. Internal controls are a continuing process designed to identify and set priorities around the risks to the Council achieving its objectives. Internal controls also evaluate the likelihood of those risks coming about and managing the impact should they do so.

Basis of assurance and limits

10. I have drawn my opinion from the work completed during the year, as first set out in the plan approved by Members on 9 March 2016 and later developed in line with emerging risks and priorities. The rest of this report sets out the work and my findings in greater detail. I have not needed to place assurance on any other provider beyond those described in the original plan.
11. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.
12. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Where risks identified by the Council do not fall within the scope of our coverage I am satisfied an assurance framework exists to provide reasonable assurance on effective management.

Overall opinion

13. I am satisfied that during the year ended 31 March 2017 the Council managed a system of internal control that offers sound assurance on control effectiveness.
14. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2017 comply in all material respects with guidance on proper practices¹.
15. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2017 are effective and provide sound assurance.

Rich Clarke CPFA ACFS
Head of Audit Partnership

6 June 2017

¹ "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016 Edition).

Internal Control

16. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
17. We gain 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 2016.

Summary of audit plan work in Swale 2016/17

18. Our plan presented in March 2016 continued the approach of dividing our work between audit days rather than a set number of projects. Among the advantages here is that we can be significantly more responsive to developing risks and priorities.
19. During 2016/17 this flexibility was most obvious in furthering our involvement in the Council's developing risk management approach. Also we could take one-off work on advice and guidance, for example in developing a well-attended set of Member briefings.
20. Up to our end of May 2017 time recording data, the table below shows days against each work area identified in the plan.

Type of work	Plan Days	Actual days	Difference
Planned 2016/17 assurance projects	345	309	-36
Risk Management Support	15	30	+15
Counter Fraud Support	15	17	+2
Member Support	10	14	+4
Audit Planning	0	19	+19
Recommendation Follow Up	30	35	+5
Other Assurance Work	25	35	+10
Total	440	459	+19
Concluding 2015/16 projects	0	21	+21

21. With a few days left to conclude the remaining projects, these numbers will increase, but I am pleased to confirm we have delivered over 100% of our planned audit days.

APPENDIX I

Audit Project Review Findings 2016/17

22. The table below summarises audit project findings up to the date of this report. Where there are material matters closed between report issue and committee meeting we will provide a verbal update. Enough work has finished already to offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
2015/16 Plan Projects Concluded After 2015/16 Annual Report Issued							
	Governance	Good Governance Framework	n/a	n/a	Jul-16	n/a	Reported to Members Nov-16
	Operational	Communications (Social Media)	n/a	n/a	Jul-16	Strong	Reported to Members Nov-16
Planned 2016/17 assurance projects completed							
I	Operational	Grounds Maintenance	15	15	Jul-16	Sound	
II	Finance	Council Tax	10	14	Aug-16	Strong	
III	Operational	CCTV	15	15	Aug-16	Sound	
IV	Operational	Property Income	15	15	Sep-16	Sound	
V	Governance	Data Protection	15	14	Oct-16	Sound	
VI	Operational	Planning Enforcement	15	24	Oct-16	Weak	Extra time to clear findings
VII	Operational	Elections – Postal Voting	15	20	Dec-16	Sound	Extra time for amended scope
VIII	Operational	Licensing	15	22	Dec-16	Sound	Extra time to include follow up on 2015 investigation
IX	Operational	Building Control Partnership	15	13	Jan-17	Sound	
X	Governance	Members’ Allowances	10	10	Jan-17	Sound	
XI	Operational	Environmental Response	15	15	Mar-17	Strong	
XII	Operational	Section 106 Agreements	15	15	Apr-17	Sound	
XIII	Finance	Bank Reconciliation	10	10	Apr-17	Strong	
XIV	Finance	General Ledger Journals & Feeders	15	19	Apr-17	Strong	Extra time to document system
XV	Operational	Complaints	15	15	Apr-17	Sound	
XVI	Finance	Accounts Payable	10	9	Apr-17	Strong	
XVII	Operational	Residents’ Parking (MKS)	10*	10*	May-17	Sound	

APPENDIX I

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
XVIII	Finance	Payroll (MKS)	10*	8*	May-17	Strong	
Planned 2016/17 assurance projects underway							
	Governance	ICT Controls (MKS)	7*	5*			Draft report issued
	Operational	Leisure Centre Contract	15	20			Draft report issued
	Operational	Rent Deposit Scheme	10	12			Draft report issued
	Governance	Corporate Governance (MKS)	10*	4*			Fieldwork stage
	Finance	Housing Benefits	10	3			Fieldwork stage
Planned 2016/17 assurance projects not completed							
	Operational	Customer Services Channel Shift	15	0	Cancelled due to substantial overlap with transformation team work (we will undertake a separate review of transformation in 2017/18)		
	Operational	Private Sector Housing	10	1	Deferred to 2017/18 to allow change in approach within the service to bed-in.		
	Operational	HR Policy Compliance (MKS)	10*	1	Deferred to 2017/18 to alleviate pressure on Mid Kent HR during Head of HR Shared Service's secondment.		
	Operational	ICT Procurement (MKS)	7*	0	Incoming Head of ICT plans substantial changes to procurement process, so review re-considered as potential advice or consultancy as plans develop		
	Operational	Land Charges (MKS)	6*	0	Deferred to 2017/18 as awaiting information on proposed national change to Land Charges process		
	Governance	Business Continuity Planning	5*	0	Originally planned when the service was shared with Ashford BC. Deferred to 2017/18 to allow new sovereign arrangements to establish.		

* = MKS projects, only show days attributable to Swale (for example ½ of days spent or planned in examining the HR service)

I: Grounds Maintenance (July 2016)

- 23. We conclude based on our audit work that the Contracts Monitoring Team has **Sound** controls in place to monitor the Grounds Maintenance contract.
- 24. We have established that the Contracts Monitoring Team have clearly defined roles and adequate resources to monitor the Grounds Maintenance contract and that the Contract Monitoring Officers (CMOs) demonstrate a good understanding of the key areas of the contract for monitoring.
- 25. However, we were unable to verify that all areas of the contract are monitored according to the expected frequency due to the functionality of the new tracking system and we have established that the CMOs do not consistently close down job requests on the CRM system. There are plans to introduce new software in the autumn which will allow management to more effectively track and close job requests.
- 26. Regular contract monitoring meetings are taking place, providing an effective forum to discuss emerging issues. There is also regular communication between the contractor and the Contract Monitoring Team as the need arises. We have also established that complaints made against the contractor are dealt with efficiently and effectively in accordance with the Council’s corporate complaints policy.
- 27. We have also established that monthly contractor payments are being made in accordance with agreed procedures, are correct, and have been appropriately authorised, with only one non-rectifiable default being issued since April 2015.

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

II: Council Tax – Valuation, Liability & Billing (August 2016)

- 28. We conclude based on our audit work that Council Tax has **Strong** controls in place over valuation, liability and billing.
- 29. Our review found only trivial changes to the Council Tax system we reviewed it in January 2015, meaning control design remains strong.
- 30. Our testing confirms controls on valuation, liability and billing work effectively. These controls work to ensure the information held on the Council Tax system is valid and to deliver accurate and timely annual billing.

31. We found the Valuation Office Agency (VOA) is experiencing delays at present which means there can be several weeks between creation or modification of a liability and a valuation that allows billing to begin. Although the Council has limited influence, it is using that influence with the VOA to ensure new and amended properties are reviewed and updated promptly.

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

III: CCTV (August 2016)

32. We conclude based on our audit work that the Economy and Community Service has **Sound** controls in place to manage its risks and support its objectives in relation to the monitoring of the CCTV contract.
33. In April 2016 the organisation monitoring the Council's CCTV changed from the Medway Control Centre to the Medway Commercial Group, which is now a local authority trading company owned wholly by Medway Council.
34. We established that the controls around contract and non-contract payments were sound with adequate separation of duties and payments being made in a timely manner.
35. Our testing further showed that there is effective communication between the Council and the Medway Commercial Group with regular meetings being held to discuss the outcomes of contract monitoring and performance. While we are satisfied that the monitoring arrangements are sound, a few administrative improvements have been identified that will assist with the effective monitoring of the Contract for the foreseeable future.
36. Our review found that there is a lack of written procedures to set out the contract monitoring and default payment processes; this could pose a resilience risk if experienced officers were to leave the Council.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0 of recs	0	1	3	1

IV: Property Income (September 2016)

37. We conclude based on our audit work that the Property Services team has **Sound** controls in place for the charging, collection, banking and recovery of income due from rental property.
38. The Council has effective and embedded processes and procedures to ensure that income derived from rental and leased properties is correctly charged and collected in full. Our testing found that procedures are well understood and applied in practice, in particular there is effective communication between departments to inform the Property Services team of changes to lease arrangements as and when they occur.
39. Income due to the Council is recorded within a Rent Schedule spreadsheet maintained by the Property Services team. Our testing identified that this record was not up to date e.g. costs centres missing/incorrect, not all properties included. Without a complete and accurate record of all of rental properties there is a risk that the Council may not receive all of the rental income due. The likelihood of this risk is currently increased as there is currently no reconciliation of income between the Rent Schedule and the main financial system (Agresso) completed by Property Services.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
n/a	n/a	1	4	1

V: Data Protection (October 2016)

40. We conclude based on our audit work that there are **Sound** controls in place to manage the risks of non-compliance with legal Data Protection requirements.
41. The Council materially conforms with all eight of the Data Protection principles set out by the Information Commissioner's Office (ICO). We noted a strong policy (although awaiting final issue), good levels of awareness, and comprehensive key officer training. We also found strong arrangements for keeping knowledge current and responsive to regulatory changes. We also found that, although the Council recorded 15 breaches in the past two years, none were grave enough to warrant ICO sanction.
42. The next steps involve expanding this strong core of guidance and knowledge across the Council. We found mixed levels of take-up for the e-Learning training, which saw some correlation to those services in breach most often.

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

VI: Planning Enforcement (October 2016)

43. We conclude based on our audit work that the Planning Enforcement Service has **Weak** controls in place to ensure that the objectives set out in the Council's Planning Enforcement Strategy (the Strategy) are met.
44. The Strategy sets out how the Council intends to investigate and resolve planning complaints and breaches of planning conditions. The Strategy itself is a clear and comprehensive document and has recently been updated. The 15/16 version is due to be adopted at the end of the year.
45. We found that the Planning Enforcement service, while often operating in accordance with the strategy, has a number of issues and inconsistencies with regards to the completeness and integrity of case files and follow-up and evidence of compliance action, such that we cannot be confident of its overall effectiveness. A number of the cases tested had missing or incomplete evidence, or had been closed without explanation or sign-off. We identified examples of complaints that had not been input into the system, and cases where files had been missing altogether. These examples existed in our sample testing, which was only a relatively small proportion of the overall number of complaints received each year. We are therefore unable to say with surety that they are isolated cases.
46. The audit also identified that there are no quality assurance checks in place, and that the service has a significant backlog of historic open cases. Current performance indicators for the service do not reflect the monitoring and reporting arrangements in accordance with the Strategy, and as a result performance information may not reliably and accurately reflect real performance of the service.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	2	5	3	1

VII: Elections – Postal Voting (December 2016)

47. We conclude based on our audit work that the Elections Service has **Sound** controls in place over the preparation and processing of postal votes.
48. Our audit testing has established that there is robust planning for all Elections and that the Elections Service successfully co-ordinated the postal voting preparations for the overlapping Police and Crime Commissioner (PCC) Elections and the EU Referendum in 2016.

- 49. Our audit testing has also established that there are sound procedures in place for the issuing, receipting and opening of postal votes.
- 50. We have however, identified that some improvement is needed when procuring the printing and posting contract for postal votes to ensure all election expenditure is fully compliant with the Council’s Contract Standing Orders.
- 51. We have also identified that improvements are needed to the Elections business continuity and disaster recovery arrangements.
- 52. Finally, we have identified some areas for improvement in relation to the retention and destruction of postal voter data, to ensure full compliance with the Data Protection Act.

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

VIII: Licensing (December 2016)

- 53. Our opinion based on our audit work is that the Licensing Service has **Sound** controls in place over the issue and administration of licenses and receipting and banking of licensing income.
- 54. Our testing established there has been a significant improvement in controls since previous audit work in this area. There are sufficient procedures in place for the issue and administration of licences which meet regulatory requirements. However, we identified one improvement needed to license format and that the licensing information available on the website should be updated.
- 55. Our testing established that financial controls, including reconciliations, are operating effectively and as designed but should be improved to cover a gap in controls where refunding a card payment.

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

IX: Building Control Partnership (January 2017)

56. We conclude based on our audit work that there are **Sound** controls in place to ensure the Council can adequately monitor operation of the South Thames Gateway Partnership.
57. We found the Council applies good governance procedures including regular and well attended meetings of the Joint Committee and Steering Group. We also found good arrangements in place for following up reports of potential dangerous structures, although there are improvements possible in retained evidence. We also identified a need to improve clarity and reporting to the partner Councils over the practice of offering fee variations to customers of the Partnership.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Med)	Priority 4 (Low)	Advisory
0	0	5	3	0

X: Members' Allowances (January 2017)

58. Our opinion based on our audit work is that the Democratic Services has **Sound** controls in place to manage its risks and support achievement of its objectives over the payment and processing of Members Allowances.
59. Our testing has confirmed that there is a sound design of controls in place to monitor and pay Members' allowances and expenses. We also found the controls operate effectively, with an accuracy rate in payment of 99.85%. This compares favourably with other similar functions, for example the UK Parliament expense payment body aims for 99.75% accuracy. We identified some minor errors the service has already corrected and note some potential control improvements, such as strengthening consistency in sample checking.

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

XI: Environmental Response (March 2017)

60. Our opinion based on our audit work is that the Environmental Response service has **Strong** controls to receive and respond to environmental complaints and take enforcement and prosecution action.
61. We found that the controls in place to receive and respond to environmental reports are effective, and our testing confirmed that reports are promptly allocated and

responded to. Complainants are kept up to date with progress and cases are closed upon completion. The service operates a range of mechanisms to engage with the public to help inform campaigns delivered across the borough to contribute towards the Council’s priority theme ‘**a borough to be proud of**’.

- 62. Enforcement action is taken in accordance with the Environmental Response Team’s Enforcement and Prosecution Policy and the Code for Crown Prosecutors. The Service receives specialist support from Mid Kent Legal Services with regards to undertaking prosecutions.

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

XII: Section 106 Agreements (April 2017)

- 63. Our opinion based on our audit work is that Planning Services has **Sound** controls in place to manage its risks and support achievement of its objectives around the management and administration of s106 agreements.
- 64. We found a well established process in place for monitoring s106 agreements, enhanced by the Council’s recent introduction of specific software. This has improved recording and monitoring and provided a full audit trail. The software also contains an alerts system the Council operates as a useful tool programmed to assist with monitoring and acting on development milestones set out in s106 agreements.
- 65. However we identified the current process of using the software to issue invoices to developers was not consistent with the Council’s financial procedures rules. Using the software directly also leaves the Council at greater risk of fraud or error, including leaving the finance function unaware of significant debts. Upon receipt of the draft audit report the s106 Monitoring Officer acted promptly to mitigate this risk with all s106 invoices now being issued through the Councils corporate sundry debtors system however in practise this was yet to happen. We also identified a need for the service to develop a protocol to govern release of s106 monies to third parties.

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

XIII: Bank Reconciliation (April 2017)

66. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the bank reconciliation process.
67. We are satisfied that the Council conducts the bank reconciliation process in compliance with financial procedures. The bank reconciliation is undertaken monthly, and good controls exist over the authorisation of the process. Our testing found no errors in the bank reconciliations between April and December 2016.
68. There is adequate separation of duties and resilience within the team which, along with sufficiently documented procedures, allows for the effective and efficient completion of the bank reconciliation process.

No recommendations for improvement made.

XIV: General Ledger, Journals & Feeder Systems (April 2017)

69. Our opinion based on our audit work is that the Finance Service has **Strong** controls in place to manage its risks and support achievement of its objectives in relation to the General Ledger feeder systems and journals.
70. Our system mapping and testing established that the General Ledger Feeder Systems and Journal process is adequately designed and effectively operated. The Council properly controls inputs from feeder systems, manages risk appropriately and maintains data integrity with a strong centralised control record. The service also holds well documented procedures and responsibilities. We also found the service processes correct, authorised and evidenced journal transfers between financial codes, enabled and supported by effective use of automation.

No recommendations for improvement made.

XV: Complaints (April 2017)

71. Our opinion based on our audit work is that the Customer Service Centre has **Sound** controls in place to manage its risks and support the achievement of its corporate Complaints Policy.
72. Our testing confirmed that there is a robust system in place for recording and monitoring complaints, which is consistent with the best practice guidance provided by the Local Government Ombudsman (LGO). Furthermore the “complaints” and “unreasonably persistent or vexatious contacts” policies offer a robust framework to guide officers when handling complaints.

- 73. However, not all officers who deal with complaints are aware of the Council’s definition of what constitutes a complaint. We do acknowledge that although the Customer Service Centre oversees the complaints handling process, service area managers remain responsible for complaints handling within their unit and need to ensure that the appointed complaint handler(s) understand and are confident in complaint handling.
- 74. Also, our testing established that stage 1 complaint responses do not always include reference to the next stage if the complainant remains dissatisfied.

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

XVI: Accounts Payable (April 2017)

- 75. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Accounts Payable process.
- 76. Our work confirmed the system is materially unchanged from our last examination in May 2015 that found a Strong level of assurance. The service retains the elements of notable practice in system design we highlighted in our previous work.
- 77. We are also satisfied through our testing that the Accounts Payable process complies with the Council’s Financial Regulations and agreed procedures as well as operating efficiently.

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

XVII: Residents’ Parking (Mid Kent Services) (May 2017)

- 78. Our opinion based on our audit work is that the controls over the administration and payment of Residents Parking Permits are **Sound**, and that the Parking Services partnership is managing the risks to support achievement of its objectives.
- 79. The Parking Service Partnership operates distinctly separate administration procedures with regards to the processing and issuing of residents’ permits across Maidstone and Swale. Efficiencies are however gained through the use of a shared IT system and also through work conducted over time to harmonise procedures where practical to do so. Our review therefore tested the processes adopted at both sites, and while clear differences have been identified, the existing procedures being

operated are well embedded, understood and result in the accurate and timely issue of residents' permits.

80. Testing of the income procedures identified no issues at Swale, with the controls over the handling, receipt and reconciliation of permit income being sound. However, we have identified that at Maidstone, income is not being reconciled fully. This has resulted in a variance between the parking income system and the Council's financial system. While we are satisfied that the variance is not material, it does present a level of risk that should be managed by implementing improved controls.

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

XVIII: Payroll (Mid Kent Services) (May 2017)

81. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.
82. Our work confirmed the Payroll process is materially unchanged from our last review in May 2016. Controls are well designed and the payroll continues to be managed effectively across the shared service.
83. Our testing confirmed that payroll payments made are accurate, authorised and processed in accordance with agreed procedures.

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

APPENDIX I

Following Up Recommendations

84. 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 finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

85. In total, we summarise in the table below the current position on following up agreed recommendations:

Project	Total	High Priority	Medium Priority	Low Priority
Recommendations brought forward into 2016/17	22	0	8	14
Recommendations agreed in 2016/17	55	2	19	34
Total Recommendations Agreed	77	2	27	48
Implemented	60	0	21	39
Recommendations carried forward into 2017/18	17	2	6	9
Not Yet Due	12	1	4	7
Delayed Implementation but no additional risk	5	1	2	2
Delayed Implementation with risk exposure	0	0	0	0

86. In the table below we summarise progress against all reports with recommendations that fell due during 2016/17. The table excludes reports that raised no risk-rated recommendations for follow-up:

APPENDIX I

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Joint Waste Contract	Jun-15 (Strong)	3				✓	Apr-16
Safeguarding People	Mar-15 (Weak) May-16 (Sound)	10				✓	Apr-16
Homelessness	Jul-15 (Sound)	2				✓	Apr-16
Discretionary Housing Payments	Mar-16 (Sound)	4				✓	Apr-16
Performance Management	Feb-16 (Sound)	5				✓	Jun-16
Social Media	Jul-16 (Strong)	2				✓	Jun-16
ICT Network Controls	Apr-16 (Strong)	1				✓	Jun-16
Cemeteries	Jan-16 (Sound)	5				✓	Sep-16
Council Tax	Aug-16 (Strong)	1				✓	Sep-16
Learning & Development	May-16 (Sound)	3				✓	Sep-16
Grounds Maintenance	Jul-16 (Sound)	3				✓	Jan-17
CCTV	Aug-16 (Sound)	4				✓	Jan-17

APPENDIX I

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Freedom of Information	Sep-15 (Sound)	6				✓	Apr-17
Property Income	Sep-16 (Sound)	5				✓	Apr-17
Housing Services – Front of House	Feb-16 (Sound)	2				✓	Apr-17
Corporate Projects	Dec-15 (Sound)	3			✓		Jul-17
Planning Enforcement	Oct-16 (Weak)	10		✓			Jul-17
Licensing	Dec-16 (Sound)	4			✓		Sep-17
Data Protection	Apr-17 (Sound)	6			✓		Sep-17
Elections – Postal Votes	Dec-16 (Sound)	6		✓			Oct-17
Building Control Partnership	Jan-17 (Sound)	8		✓			Dec-17

Delayed Implementation Details

Planning Enforcement

87. We agreed to defer a high priority recommendation on the need to keep evidence on enforcement action, originally scheduled for implementation by November 2016. While the service has issued new guidance to staff, early follow-up testing in December 2016 identified some continuing gaps in case records and evidence. We agreed to revisit this testing in June 2017 to ensure enough time passes to allow new instructions to set in. Deferral also allows us to see the impact of amendments to software in February 2017 designed to further help and organise evidence. Meanwhile, we consider the extra focus on planning enforcement during this implementation period will work to avoid exposing the Council to extra risk.
88. Having previously assessed arrangements as offering weak assurance, we will revisit the rating during 2017/18 as the service continues to act on recommendations (especially the two high priority matters).

Building Control Partnership

89. We agreed to defer one medium priority recommendation to align with a review of the Partnership scheduled for September 2017. The Council plans to refresh and update the Memorandum of Understanding during that review.

Elections – Postal Votes

90. We agreed to defer one medium and two low priority recommendations as the service, understandably, needed to focus on the unexpected general election. We consider the delayed implementation poses no extra risks to the Council.

Corporate Governance

91. Corporate governance is the rules, practices and processes that direct and control the Council.
92. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
93. We attend the Council's Information Governance and Procurement Groups, as well as comment on all waivers sought against the Council's Contract Standing Orders. We also help in upholding good governance by providing advice and training to both officers and Members.
94. During the year we also undertook a specific review examining the Council's compliance with the new Code of Corporate Governance published. We noted the results of that review earlier in this document.

Counter Fraud & Corruption

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

Investigations

96. During 2016/17 there were no matters raised with us that required investigation.

Whistleblowing

97. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
98. Late in 2016/17 we received one matter raised with us for further enquiry. Examination is at an early stage, but it does not involve any allegation of criminal behaviour. If findings follow and are material to the Council's governance, we will provide more information to Members in our interim reporting at the latest. We had no other matters raised with us during 2016/17.

National Fraud Initiative

99. We have continued to co-ordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project, and we must send in various forms of data to the Cabinet Office, who administer the exercise.
100. We have now examined all relevant matches arising from the 2014/15 exercise. In doing so, the Council has identified 50 cases of customer error and one fraud, together leading to recovery of £31,137. This gives a fraud or error rate of around 1 in 40 matches, with an average return of £14 for every match examined.
101. The Cabinet Office started collecting data to form its 2017 matches in autumn 2016. We worked with data owners across the Council to ensure they sent information in the correct format. We also helped make sure each authority had in place Fair Processing Notices to safeguard individual rights under the Data Protection Act.
102. The table below sets out the number of matches identified in 2015 compared with those released to authorities in 2017. We have now embarked on a review of the 2017 matches starting with those identified by the Cabinet Office as 'high risk' with the aim of meeting Government expectation to review all matches within two years.

Type of Match	2015 Matches	2017 Matches
Housing Benefit	1,287	563
Council Tax Reduction Scheme		738
Creditors	734	607
Housing Waiting List	n/a	101
Procurement	n/a	15
Payroll	170	15
Insurance Claimants	5	1
Residents' Parking	0	0
Licensing	0	0
Total	2,196	2,040

CIPFA Fraud and Corruption Tracker

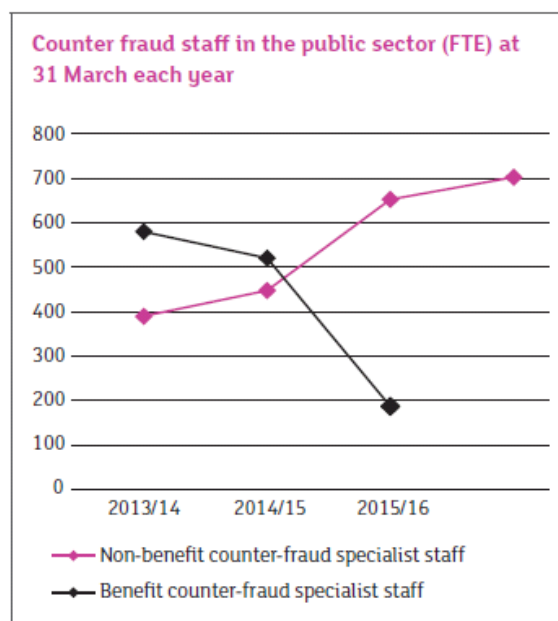
103. Early in 2016/17, as members of the CIPFA Counter Fraud Centre, we contributed to a national survey to gauge the fraud and response across local government. In all, most local government organisations replied, including almost 40% of District Councils, giving a reasonably reflective set of results.
104. The [full report](#) notes the continuing threat from fraud, with authorities identifying almost 90,000 cases in 2015/16, with an estimated value of £324.7m. The table below breaks those numbers down further.

APPENDIX I

Types of fraud	Fraud cases	% of the total	Value £m	% of the total value	Average £'000
Council Tax	57,681	65.70	24.1	7.40	0.42
Housing Benefit	11,902	13.50	40.5	12.5	3.41
Disabled Parking Concession	6,578	7.50	3.0	0.90	0.45
Housing	5,823	6.60	207.9	64.1	35.71
Debt	1,053	1.20	0.2	0.10	0.23
Business Rates	706	0.80	8.2	2.50	11.55
Welfare Assistance	616	0.70	0.1	0.02	0.12
Procurement	613	0.70	6.2	1.92	10.19
Insurance Claim	382	0.43	5.3	1.62	13.76
Adult Social Care	323	0.37	2.9	0.90	9.09
No Recourse to Public Funds	251	0.29	8.7	2.67	34.51
Mandate	216	0.25	7.2	2.22	33.31
School	182	0.21	0.9	0.26	4.71
Payroll	163	0.19	0.3	0.10	1.98
Recruitment	143	0.16	0.7	0.23	5.21
Pensions	89	0.10	0.6	0.18	6.42
Economic and Voluntary Sector	61	0.07	1.5	0.47	25.10
Expenses	50	0.06	0.5	0.15	9.78
Children's Social Care	29	0.03	0.3	0.09	9.86
Manipulation of Data	24	0.03	na	na	na
Investments	1	0.00	0.2	0.07	221.00
Other	983	1.12	5.3	1.65	5.44
	87,869		324.7		

105. At the same time, the report notes a decline in the number of counter fraud staff working in local authorities. This decline follows both pressures on public finances and the DWP's centralisation of housing benefit fraud investigation into the Single Fraud Investigation Service.

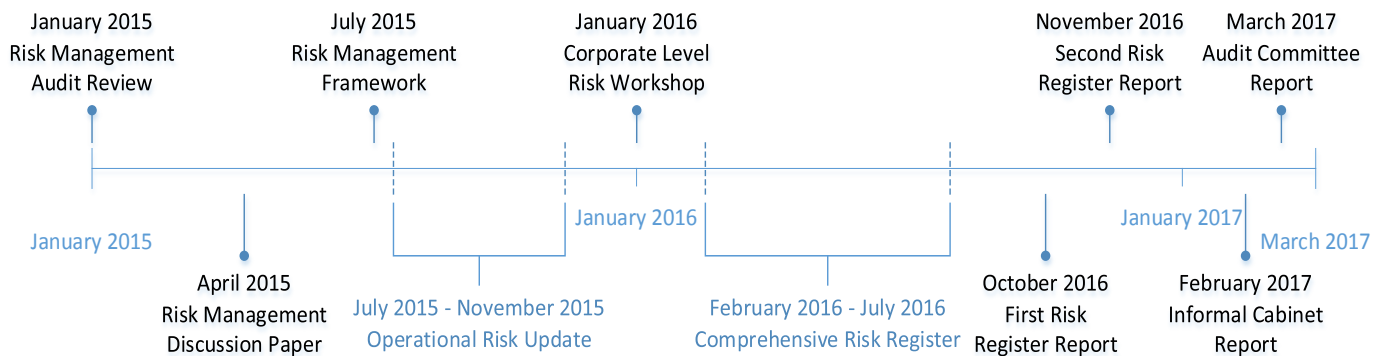
106. In part, this impact is offset by increasing use of data matching. The NFI, noted above, is the largest most settled route but there are also local counter fraud hubs in Kent and London that provide useful information.



107. Also, there is an increasing shift towards using intelligence and data matching alongside applications to prevent fraud before it occurs. In addition, widespread publicity of these measures helps deter would-be fraudsters.
108. In the coming year, CIPFA with local practitioners aim to further improve counter fraud practices by setting up a set of specific local government standards. We will watch developments, in part through the Head of Audit Partnership's position on the Internal Audit Standards Advisory Board. We will then propose fitting adjustments to the Council's policies and practices to continue to learn from others on the approaches that deliver the best results.

Risk Management

109. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
110. 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.
111. As well as seeking assurance through our audit work, Mid Kent Audit also plays a lead role in promoting good risk management throughout the authority. Our Audit Charter (approved by this Committee in March 2016) details the safeguards on our independence in fulfilling both roles. These safeguards include division within the Audit Team (our assurance work is led by the Head of Audit Partnership, promoting risk management by the Deputy Head), oversight by the Shared Service Board and a fully independent review. The Head of Audit at Medway Council will undertake that independent review (at no cost to the Council) during 2017/18.
112. The timeline below sets out the actions taken since we issued our audit review of risk management in January 2015. This timeline was included in the report to Informal Cabinet and to the Audit Committee in March 2017 and shows how far we have come since 2015 to implement new processes and to create a comprehensive risk register:



113. The next steps include continual review and refresh of the key risks. Particular staging posts include a revised risk workshop in summer 2017, and further reporting to the Audit Committee and Cabinet later in 2017/18.

Mid Kent Audit Service

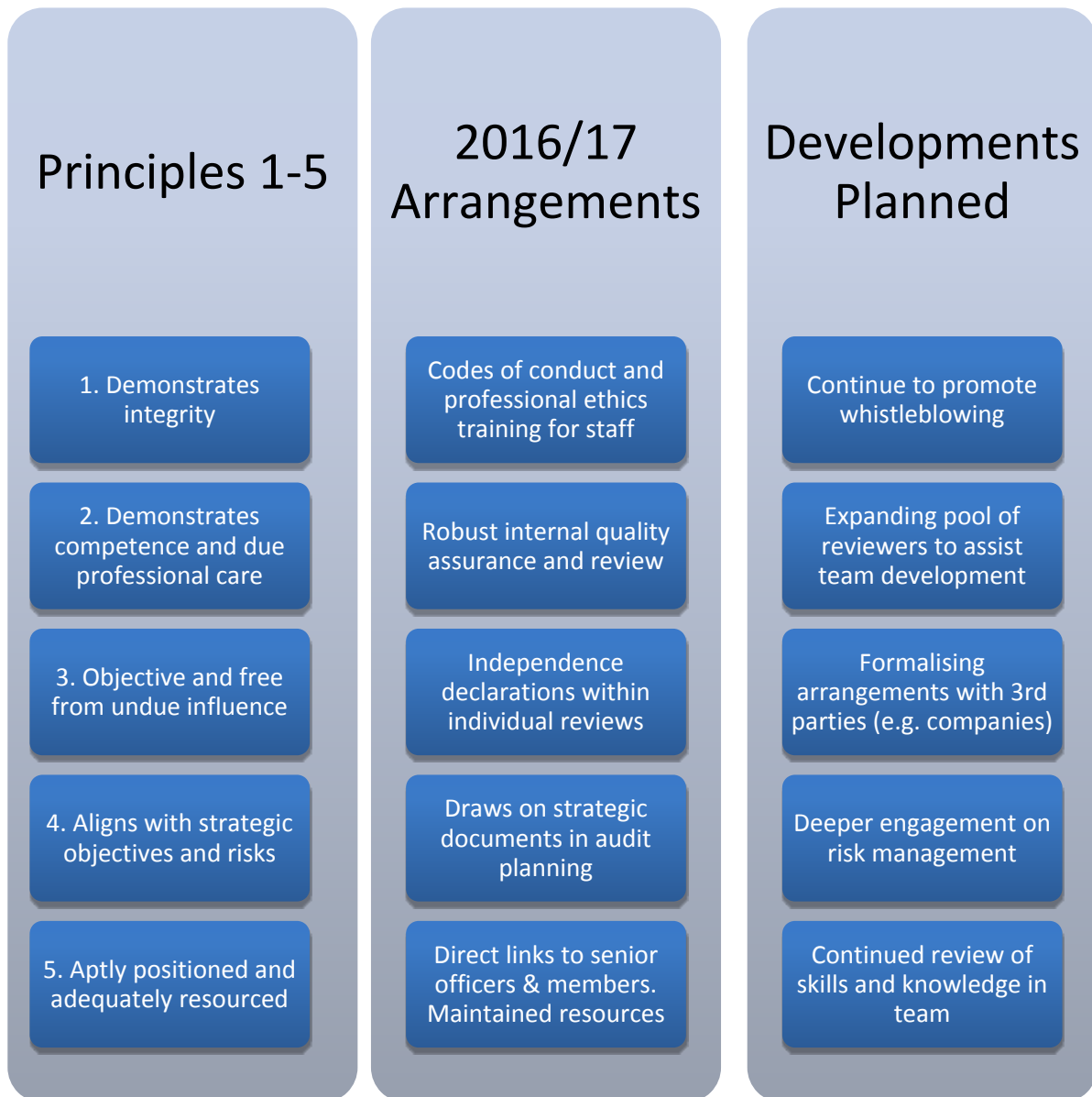
Team Update

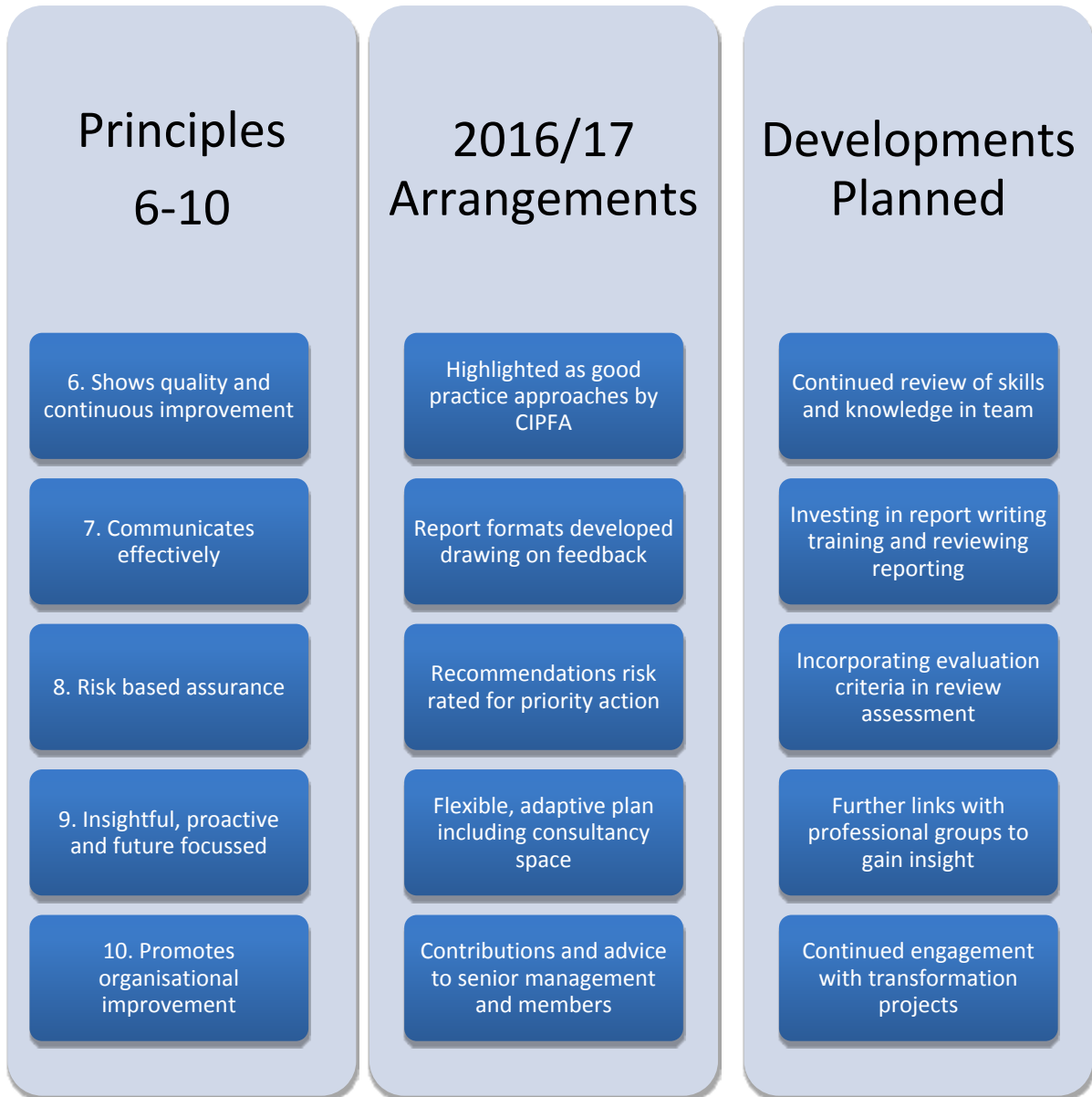
114. During 2016/17 we were, on average, 1.4fte short of establishment owing to a combination of long term sickness absence and vacancies at trainee and administrator level. Nevertheless, we could complete the audit plan in record time; 61 weeks compared with 84 weeks to complete the 2013/14 plan. We achieved this through the hard work and dedication of our team with the resilience that comes from working a shared service across four authorities.
115. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through 2016/17.
116. We also, following a competitive tender, received more support during spring 2017 from Mazars in completing some reviews of key financial systems. While we have no current plans to seek contractor support in 2017/18, the external tender showed there exists a high-quality low cost market for audit support should we need it in future.
117. We have continued to support the team in learning and development through 2016/17. This includes professional qualifications, with five of the team currently working towards accreditation in internal audit, accounting and risk management.
118. We have also continued to seek opportunities to take up commercial work where we can do so without compromising the quality of service to our local authorities. In 2016/17 this included the Head of Audit Partnership working with CIPFA to deliver training to Heads of Audit across the country on managing effective audit teams.
119. More locally, we have also developed and delivered training on Introduction to Internal Audit, aimed specifically at those with a counter fraud background. As well as producing income, this training also received exceptional response from delegates. With ever more authorities creating combined audit and counter fraud teams, we continue to receive expressions of interest for this training and may deliver more sessions during 2017/18.

Quality And Improvement Plan

120. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.

121. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA’s recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
122. In 2017 we have undertaken a self-assessment against the Standards and confirm to Members we remain in full conformance. Our next external assessment is due before 2020.
123. While the full standards comprise more than fifty demands, the IIA sums them up in ten principles. Below, we describe the principles, note our current performance and highlight further initiatives to continue development.





Performance Indicators

124. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Audit Board (with Mark Radford as Swale’s representative for the early part of the year, followed by Nick Vickers) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKIP Board (which includes the Council’s Chief Executive and Leader).
125. 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.

APPENDIX I

Measure	2014/15 Outturn	2015/16 Outturn	2016/17 Outturn
Cost per audit day	Met target	Met target →←	Beat target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑
% of chargeable days	75%	63% ↓	74% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑
Satisfaction with assurance	100%	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←
Recommendations implemented as agreed	95%	98% ↑	98% ↑
Exam success	100%	100% →←	85% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←

126. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service. Unfortunately during the year we saw our first exam failures. However, the IIA in particular have raised pass marks on their professional exams (80%) with a commensurate fall in pass rates so we continue to outperform the national picture. We are optimistic for our staff in re-takes to follow in 2017/18.

Acknowledgements

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

Assurance & Priority level definitions

Assurance Ratings 2016/17

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

Recommendation Ratings 2016/17

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.

Audit Committee Meeting		Agenda Item: 7
Meeting Date	21 June 2017	
Report Title	Audit Committee Annual Report 2016/17	
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance	
SMT Lead	Nick Vickers – Chief Financial Officer	
Head of Service	Rich Clarke – Head of Audit Partnership	
Lead Officer	Frankie Smith – Audit Manager	
Key Decision	No	
Classification	Open	
Recommendations	<ol style="list-style-type: none"> 1. That the Audit Committee considers the proposed 2017/18 Member Development Programme. 2. That the Audit Committee agree the Audit Committee Annual Report for 2016/17. 3. That the Chairman of the Audit Committee provides the report to a meeting of the Full Council to demonstrate how the Committee has discharged its duties. 	

1 Purpose of Report and Executive Summary

- 1.1 The report outlines how the Audit Committee has effectively discharged its duties during 2016/17. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee. The report seeks to provide additional assurance to support the Annual Governance Statement.

2 Background

- 2.1 The Audit Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy. This reports sets out how this has been achieved during 2016/17.
- 2.2 This will be the sixth year that the Audit Committee has reported its annual activity to full Council.

3 Proposals

- 3.1 To consider the 2017/18 Audit Committee Member Development Programme.
- 3.2 To agree the Audit Committee Annual Report as attached in Appendix I.
- 3.3 That the Chairman of the Audit Committee provides the report to a meeting of full Council setting out how the committee has discharged its duties.

4 Alternative Options

- 4.1 The production and presentation of an annual report is required by this Committee's terms of reference. Therefore no other alternative could be recommended.

5 Consultation Undertaken or Proposed

- 5.1 We provided this report to the Chairman of the Audit Committee for consultation prior to submission for this meeting.

6 Implications

Issue	Implications
Corporate Plan	None identified at this stage.
Financial, Resource and Property	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.
Legal and Statutory	None identified at this stage.
Crime and Disorder	None identified at this stage.
Environmental Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage
Risk Management and Health and Safety	The role of the Audit Committee requires it to consider the effectiveness of the Council's risk management arrangements.
Equality and Diversity	None identified at this stage.
Privacy and Data Protection	None identified at this stage.

7 Appendices

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

- Appendix I: Audit Committee Annual Report 2016/17

8 Background Papers

8.1 None.

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Audit Committee Annual Report 2016/17



Introduction by Chairman of Audit Committee

This report provides an overview of the Audit Committee's activity during the municipal year 2016/17.

I am pleased to report that the Audit Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

During 2016/17 the Committee met four times and was pleased to note, among the highlights, a further unqualified accounts and value for money opinion from our external auditors and a positive conclusion on the Council's control and governance from our internal auditors.

Once again during 2016/17 the Committee is grateful for the contributions of its members, as well as to those officers who support its work.



*Councillor Nicholas Hampshire ACA, BA (Hons)
Audit Committee Chairman*

Introduction

Swale Borough Council has always supported and understood the value and benefits of having an independent Audit Committee.

The Audit Committee is an essential check on the corporate governance framework; providing an independent and high-level overview of the internal control, governance and risk management for the Council.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework and reviews and approves the Council's annual statements of accounts.

The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix 1). This includes direct access to the Council's Appointed Auditor and Head of Audit Partnership without the presence of other officers where appropriate.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

Effective audit committees can bring many benefits to local authorities and these benefits are described in CIPFA's Audit Committees - Practical Guidance for Local Authorities as:

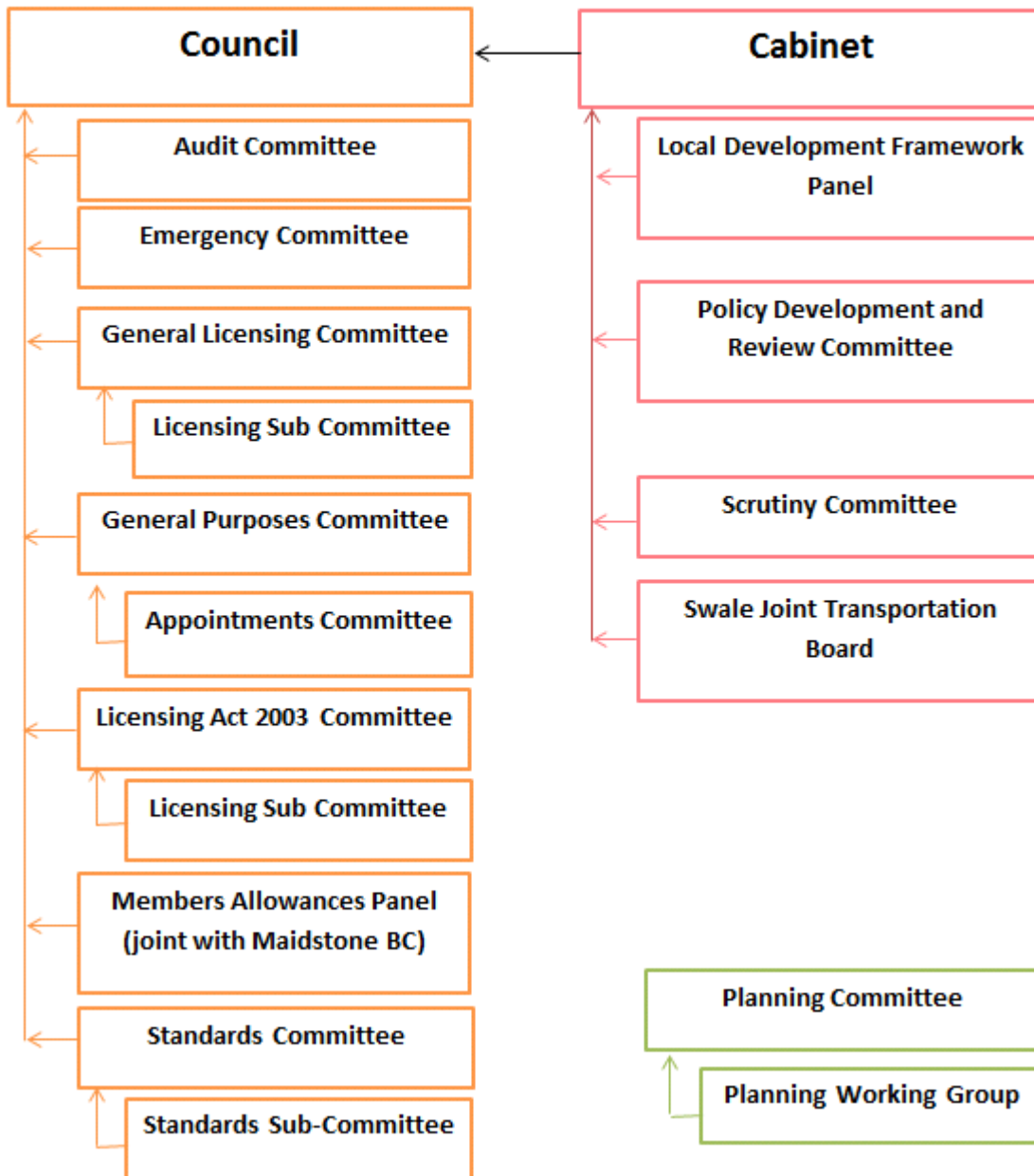
- Increased public confidence in the objectivity and fairness of Council financial and other reporting.
- Reinforcing the importance and independence of internal and external audit and similar review processes.
- Providing additional assurance through the process of independent review and challenge.
- Increasing emphasis and awareness of internal control, governance and risk management.

Statement of Purpose

The purpose of an 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.

*Swale Borough Council
Constitution*

Swale Borough Council Committee Structure 2017



Membership & Attendance

The following table summarises attendance at all of the Audit Committees held in 2016/17:

Name	Role	8 Jun	14 Sep	30 Nov	8 Mar
Committee Members					
CLlr Nicholas Hampshire	Chairman	✓	✓	✓	✓
CLlr Nigel Kay	Vice-Chairman	✓	✓	✓	✓
CLlr Andy Booth	Committee Member	✓	✓	Apologies	Substituted
CLlr Adrian Crowther	Committee Member	✓	x	✓	x
CLlr Angela Harrison	Committee Member	✓	✓	✓	✓
CLlr Mick Galvin	Committee Member	✓	✓	✓	x
CLlr Peter Marchington	Committee Member	✓	x	x	✓
CLlr Roger Clark	Committee Member	✓	✓	✓	Apologies
CLlr Samuel Koffie-Williams	Committee Member	✓	✓	✓	✓
CLlr Mike Dendor	Substitute Committee Member				✓
Visiting Members					
CLlr Duncan Dewar-Whalley	Cabinet Member for Finance & Performance	✓	✓	✓	Apologies
CLlr Alan Horton	Cabinet Member for Safer Families & Communities	✓	✓	✓	Apologies
CLlr Gerry Lewin	Deputy Leader & Cabinet Member for Planning			✓	
CLlr Bryan Mulhern	Deputy Cabinet Member for Planning			✓	
Swale BC Officers					
Mark Radford	Director of Corporate Services (until Feb-17) Chief Executive	✓	✓	✓	
Nick Vickers	Chief Financial Officer	✓	✓	✓	✓
James Freeman	Head of Planning Services			✓	
Phil Wilson	Chief Accountant		✓		
Philippa Davies	Democratic Services	✓		✓	
Katherine Bescoby	Democratic Services		✓		
Kellie McKenzie	Democratic Services				✓
Mid Kent Audit Officers (Internal Audit)					
Rich Clarke	Head of Audit Partnership	✓	✓	✓	
Russell Heppleston	Deputy Head of Audit Partnership				✓
Frankie Smith	Audit Manager	✓		✓	✓
Grant Thornton (External Audit)					
Iain Murray	Engagement Lead		✓		
Trevor Greenlee	Audit Manager	✓	✓	✓	✓

All of the Audit Committee agenda papers and minutes are available on the Council's [website](#).

Business

During the year the Committee has commented, examined and reviewed the following:

Audit Activity
<ul style="list-style-type: none">• Internal Audit Annual Report
<ul style="list-style-type: none">• Internal Audit Interim Report
<ul style="list-style-type: none">• 2017/18 Internal Audit Plan
<ul style="list-style-type: none">• Risk Management Update
External Audit (Grant Thornton)
<ul style="list-style-type: none">• Fee Letter
<ul style="list-style-type: none">• Audit Plan
<ul style="list-style-type: none">• Annual Audit Letter
<ul style="list-style-type: none">• External Audit – Audit Committee Update
<ul style="list-style-type: none">• Certification of Claims & Returns
<ul style="list-style-type: none">• Progress Report
Finance
<ul style="list-style-type: none">• Annual Governance Statement
<ul style="list-style-type: none">• Annual Treasury Management Report
<ul style="list-style-type: none">• Annual Financial Report 2015/16 and Audit Findings Report
<ul style="list-style-type: none">• Treasury Management Half Yearly Review
Other
<ul style="list-style-type: none">• Work Programme
<ul style="list-style-type: none">• Future Appointment of External Auditors
<ul style="list-style-type: none">• External Auditor Appointment

Conclusion

The Audit Committee, in partnership with the Council's Internal and External Auditors, and with the support of Officers has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues.

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2016/17.

Sources of Assurance

In drawing the conclusion, the Audit Committee gained assurance from the following sources:

The work of Internal Audit

The Head of Audit Partnership issued an unqualified Head of Audit Opinion in 2015/16 which concluded that the Council was operating an effective sound system of internal control, governance and risk management. Throughout the year the Committee has been kept up to date with delivery of the Internal Audit plan, implementation of audit recommendations, and has been kept aware of any emerging risks.

The Internal Audit plan for 17/18 included a breakdown of internal audit assurance for the coming year, and the Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.

There have been no significant issues raised for the Committee's attention during the year by the Internal Audit team. The Committee has continued to show its support to the Internal Audit team throughout the year, and has recognised the role, responsibility and authority of the service within the Audit Charter which was updated and agreed by the Committee in March 2016.

The work of External Audit (Grant Thornton)

The external auditors report back to the Audit Committee providing regular updates on their programme of work. During the year, the External Auditors presented an unqualified value for money conclusion and an unqualified opinion on the financial statements. Particularly, the External Auditors recognised high quality of the Council financial statements and supporting working papers. The Audit Committee has provided effective challenge to the External Auditors as appropriate and gained assurance from the reports and updates provided during the year.

Finance & Governance Reports

The Council's accounts are reported to the Audit Committee for approval, along with the Annual Governance Statement. The Committee has provided challenge and questioning to the Section 151 Officer on the finance and governance matters.

The Committee specifically gains assurance from the Annual Governance Statement which is a statutory document that explains the processes and procedures in place to enable the council to carry out its functions effectively.

The statement is produced following a review of the council's governance arrangements and includes actions address any significant governance issues identified. The Committee reviewed and approved the 2015/16 Annual Governance Statement.

Member Development

During 2016/17 Audit Committee Members attended a number of development briefings which covered the following areas:

- The role of the Audit Committee
- Risk management
- Counter fraud and corruption

Proposed Development Programme 2017/18

Continued professional development is key to the effective operation of the Audit Committee. Briefings enable Members of the Committee to be kept up to date on the latest developments in the areas of governance, risk and internal control.

The table below sets out a development programme which could be provided to Members of the Audit Committee in 2017/18. The topics suggested below mirror the responsibilities of the Committee and complement the role the Committee has to oversee the effective governance of the Council:

Briefing theme & potential specific topics
Internal Audit Standards <ul style="list-style-type: none">○ How standards are set and monitored○ Specific work on IA conformance
Risk Management <ul style="list-style-type: none">○ Risk appetite○ Specific strategic and operational risks○ Risk management strategy○ Local government risk outlook
Treasury Management <ul style="list-style-type: none">○ Investment and borrowing options for local authorities○ Prudential Code○ Financial outlook for local authorities
Reviewing the Annual Governance Statement <ul style="list-style-type: none">○ The AGS within the Council's governance○ Specific topics within the AGS○ Comparative review of AGS across local government

Audit Committee - Terms of Reference

Purpose

The purpose of an 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.

Audit Activity	Regulatory Framework	Accounts
<p>To consider the Head of Audit Partnership’s annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council’s governance arrangements, and any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.</p>	<p>To review any issue referred to it by the Chief Executive or a Director or any Council body.</p> <p>To monitor the effective development and operation of risk management and corporate governance in the Council.</p>	<p>To review and approve the annual statement of accounts. Specifically, to consider whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Cabinet or the Council.</p>
<p>To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the 3 year Strategic Internal Audit Plan.</p>	<p>To monitor council policies on ‘Whistleblowing’ and the ‘Antifraud and Corruption Strategy’.</p>	<p>To consider the external auditor’s report to those charged with governance on issues from the audit of the accounts.</p>
<p>To consider the external auditor’s annual letter, the report to those charged with governance, and any specific reports as agreed with the external auditor.</p>	<p>To consider and comment on the authority’s Annual Governance Statement and agree its adoption as part of the approval of the annual accounts.</p>	<p>To be responsible for ensuring effective scrutiny of the treasury management strategy and policies (Note: Council is responsible for adopting the Treasury Management strategy and policy).</p>
<p>To liaise with the Audit Commission over the appointment of the Council’s external auditor, comment on the scope and depth of external audit work and ensure that it gives value for money.</p>	<p>To consider the council’s arrangements for governance and whether adequate safeguards are in place to secure compliance with its own and other published standards and controls and best practice.</p>	

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Chief Executive
Swale Borough Council
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Melton Street
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26 April 2017

Dear Mark

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides the framework for local public audit. Under these provisions the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Audit Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 PSAA has been specified by the Secretary of State as an appointing person for principal local government and police bodies, and will make auditor appointments and set fees for bodies that have opted into the national auditor appointment scheme it is developing.

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no changes to the overall work programme for local government audited bodies for 2017/18, following the recent CIPFA/LASAAC announcement that their planned introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities in 2017/18 will no longer proceed. PSAA have therefore set the 2017/18 scale audit fees at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £60,739.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken

under this Code, on the basis of the [2017/18 work-programme and scales of fees](#) set out on the PSAA website. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

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

The NAO issued its guidance for auditors on value for money work in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

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

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Certification of grant claims and returns [if applicable]

At the request of the Department for Work and Pensions, auditors appointed by PSAA will continue to certify local authority claims for housing benefit subsidy for 2017/18.

The Council's indicative fee for this certification work has yet to be set by PSAA. We will write to you to confirm the fee when this has been confirmed.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2017	15,184
December 2017	15,184
March 2018	15,184
June 2018	15,187
Total	60,739
Housing Benefit Certification	
March 2018	TBC

Outline audit timetable

We will undertake our audit planning and interim audit procedures from November 2017 to March 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2018, along with our work on the whole of government accounts return.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2017- March 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	August – September 2018	Grant certification report	A report summarising the findings of our housing benefit certification work

Our team

The key members of the audit team for 2017/18 are:

	Name	Phone Number	E-mail
Engagement Lead	Iain Murray	020 7728 3328	Iain.g.murray@uk.gt.com
Engagement Manager	Trevor Greenlee	01293 554071	Trevor.Greenlee@uk.gt.com

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Iain Murray', with a stylized flourish at the end.

Iain Murray
Engagement Lead
For Grant Thornton UK LLP

The Audit Plan for Swale Borough Council

Year ended 31 March 2017

May 2017

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Iain Murray
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Swale Borough Council
East Street
Sittingbourne
Kent ME10 3HT

21 June 2017

Dear Nicholas

Audit Plan for Swale Borough Council for the year ending 31 March 2017

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

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

-give an opinion on the Council's financial statements

-satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Iain Murray

Engagement Lead

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Chartered Accountants

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Understanding your business and key developments

Developments

Spirit of Sittingbourne

The Council has now agreed proposals to become funder and owner of elements of the Sittingbourne Town Centre redevelopment. The Council will fully fund the retail and leisure elements of the scheme and also match grant funding from South East Local Enterprise Partnership for expenditure on related highways and infrastructure works. The initial demolition work associated with the project commenced in February 2017.

Key challenges

Financial Planning

Local authorities continue to face significant financial pressures associated with reductions in government funding. The Local Government Finance Settlement for 2017/18 has introduced changes to the New Homes Bonus system, with the Council facing significant reductions in funding. There are also continuing uncertainties relating to the future formula for local government funding and the basis on which control of business rate income will be devolved to local authorities.

In this context the Council recognises the need to develop new funding streams if it is to maintain and improve services over the medium term. The Council's capital strategy now anticipates investing in capital projects for the purpose of income generation, whilst supporting wider Council objectives around regeneration and strategic planning. To support this strategy the Council has now increased its borrowing facility available to fund capital investments to £60m.

The Council also continues to pursue internal efficiencies through a transformation programme.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect the aim of the 'Telling the Story' project to streamline the financial statements, making them more accessible to the reader and better aligning them with internal organisational reporting. The changes affect the presentation of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statements and segmental reporting disclosures. A new Expenditure and Funding Analysis note has also been introduced.

The Council remains proactive in reviewing the presentation of its financial statements. In March 2017 the finance team produced an early draft template of the Council's 2016/17 accounts which incorporated the new changes. This was good practice and allowed audit input to discuss relevant issues at an early stage.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council continues to review the processes for preparing its accounts and is well-placed to achieve the earlier timetable in 2017/18.

Our response

We will;

- monitor the progress with the Council's regeneration plans and consider any issues which relate to our value for money conclusion in 2016/17
- update our understanding of your medium term financial plans as part of the work to support our value for money conclusion
- consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- keep you informed of any current 2016/17 financial reporting issues through on-going discussion.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,734,000 (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £87,000.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified no items where separate materiality levels are appropriate:

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Council.</p>
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • testing of journal entries • review of accounting estimates, judgments and decisions made by management • review of any unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Other risks identified

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

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Substantive testing of creditor balances • Cut-off testing to ensure that transactions have been recorded in the correct accounting period. • Review of yearend reconciliations to ensure completeness of information in the accounts.
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information
Valuation of property, plant and equipment	Revaluation measurements not correct	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of management's processes and assumptions for the calculation of the estimate, including review of the work performed by management experts • Review of the competence, expertise and objectivity of any management experts • Testing to ensure information on revaluations is correctly input to the Council's asset register • Evaluation of management's processes to ensure the carrying value of assets not revalued during the year is not materially different from current value at the balance sheet date

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Employee remuneration: Valuation of pension fund net liability	Pension fund assets and liabilities incorrectly valued.	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund liability is not materially misstated • Review the competence, expertise and objectivity of the actuary performing the pension fund valuation • Gain an understanding of the basis for the valuation and undertake procedures to confirm the reasonableness of the actuarial assumptions made • Review the consistency of disclosures in the financial statements with the actuarial report
Changes to the presentation of local authority financial statements	<p>CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the reader of the accounts. The project has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period restatement of the comparative figures is also required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review the process for making the required financial reporting changes to the 2016/17 financial statements. • Review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives • Review the classification of 2016/17 income and expenditure recorded within the Cost of Services section of the CIES and the new Expenditure and Funding Analysis (EFA) note to the financial statements. • Review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).

Other risks identified (continued)

Going concern

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

Other material balances and transactions

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

- Investments (long term and short term)
- Debt and cash equivalents
- Usable and unusable reserves
- Long term liabilities
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- CIES: Financing and investment income and expenditure
- CIES: Taxation and non-specific grants
- Segmental reporting note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Value for Money

Background

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

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

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

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

Reporting

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

We will include our conclusion in our auditor's report on your financial statements.

Value for money (continued)

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

Significant risk	Link to sub-criteria	Work proposed to address
You are facing significant reductions in government funding in future years. In this context you are seeking to identify new opportunities to deliver efficiencies and potential opportunities for income generation. These changes will require an effective financial planning framework over the medium term.	Sustainable resource deployment	We will update our understanding of your medium term financial planning framework and your approach to addressing future reductions in central government funding.

Other audit responsibilities

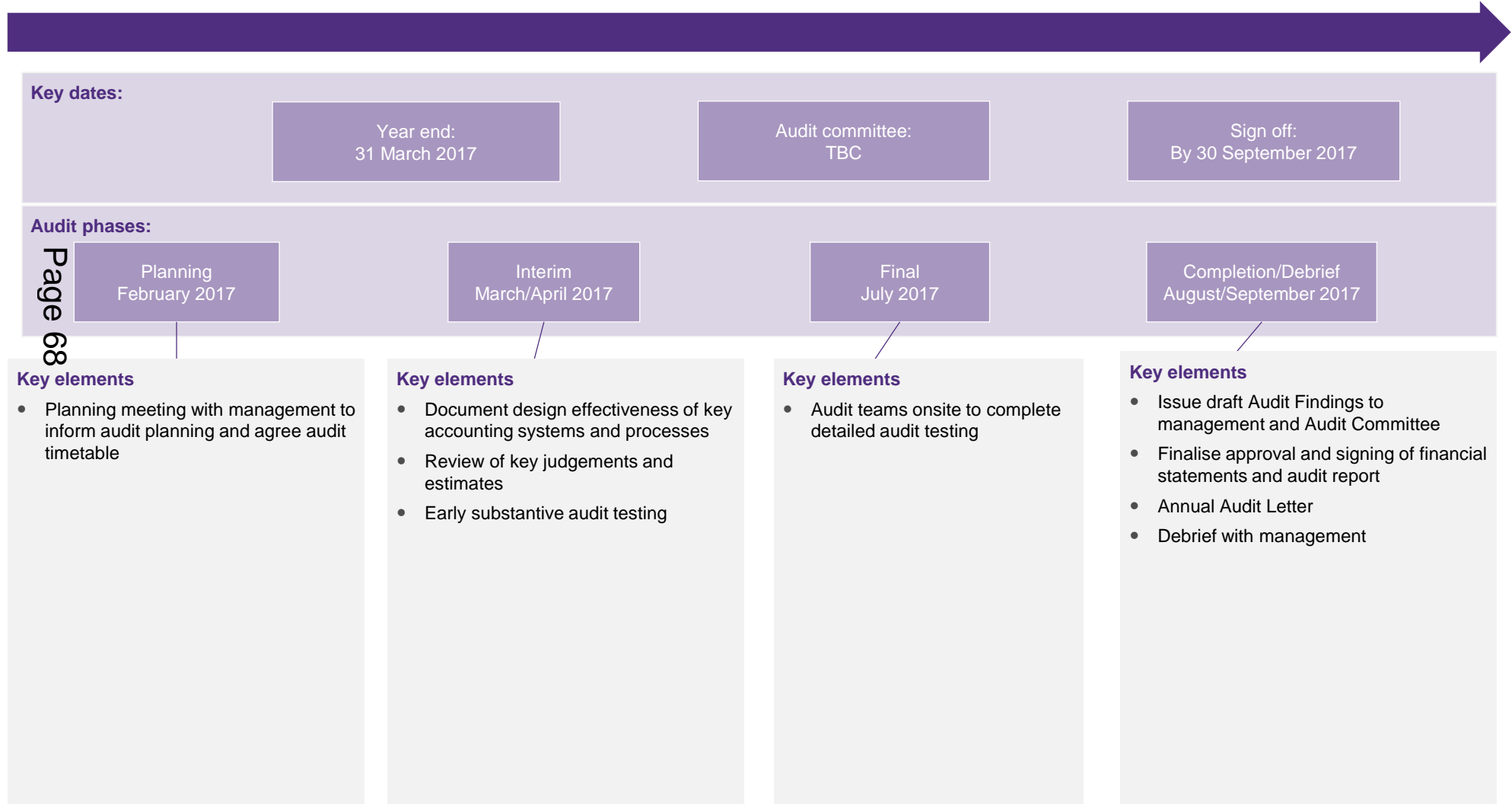
In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

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

We certify completion of our audit.

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	60,739
Grant Certification (indicative)	18,611
Total audit fees (excluding VAT)	79,350

Our fee assumptions include:

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

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

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

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related	0	N/A
Non-audit related	0	N/A

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

As an auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

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

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

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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



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

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June 2017

Iain Murray

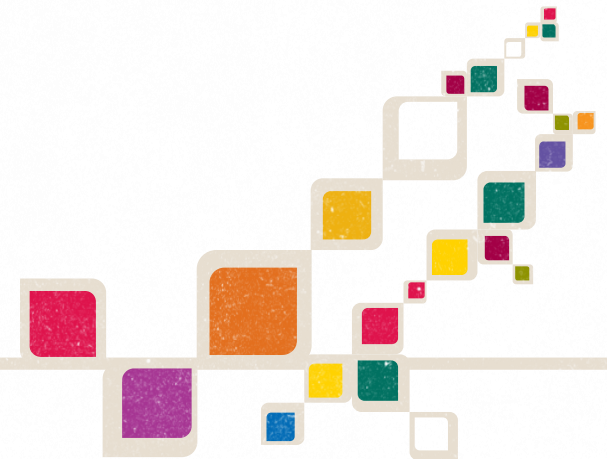
Engagement Lead
T 020 7728 3328
E iain.g.murray@uk.gt.com

Trevor Greenlee

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



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



Introduction

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

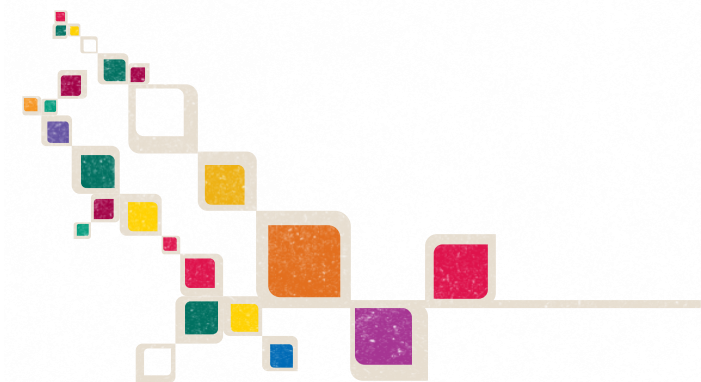
The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Page 75 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.

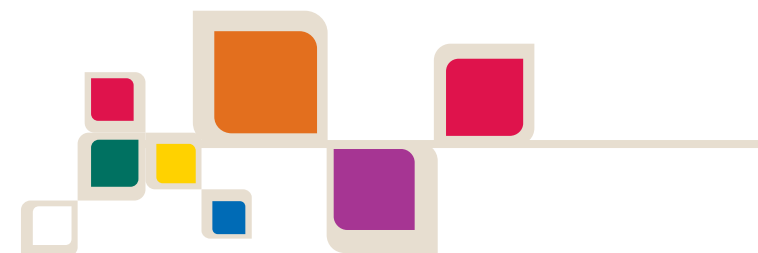
75 If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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

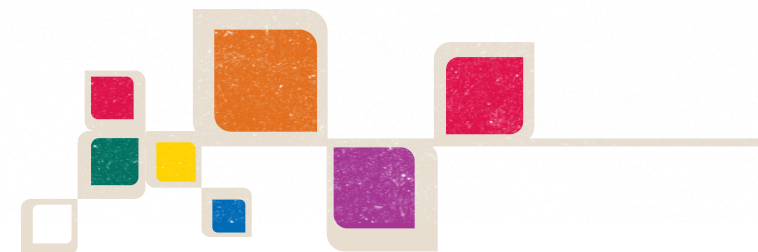


Planned work



2016/17 work	Planned Date	Comments
<p>Interim accounts audit Our interim audit work will include:</p> <ul style="list-style-type: none"> • work to understand 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 in areas such as payroll and payments. 	<p>December 2016 – April 2017</p>	<p>We have completed our walkthrough tests of the Council's financial system controls in areas where we consider that there is a risk of material misstatement. Our work has not identified any issues which we wish to bring to your attention.</p>
<p>Accounts Audit Plan Under auditing standards we issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	<p>June 2017</p>	<p>Our Audit Plan is included as a separate item on today's agenda.</p>
<p>Final accounts audit Work to complete our audit of the 2016-17 financial statements.</p> <p>We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.</p>	<p>July 2017</p>	<p>This year Grant Thornton has again run local workshops for preparers of local government accounts, covering current issues and changes to the Code of Practice on Local Authority Accounting. Local workshops were attended by members of the Council's finance team.</p> <p>In March 2017 the finance team produced an early draft set of template accounts incorporating changes in the CIPFA Accounting Code for 2016/17. This was good practice and allowed audit input at an early stage before the draft accounts were finalised.</p> <p>Our Audit Findings Report including our proposed opinion and value for money conclusion will be presented to the September Audit Committee.</p>

Planned work



2016/17 work	Planned Date	Comments
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Value for Money (VfM) conclusion

We are required by section 21 of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VfM) conclusion.

March - July

Our initial risk assessment is reported in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.

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In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: *"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"*.

AGN03 provides examples of proper arrangements using three sub-criteria;

- informed decision making
- sustainable resource deployment
- working with partners and other third parties.

These sub-criteria are intended to guide auditors in reaching their overall conclusion, but they not separate criteria for assessment purposes and auditors are not required to reach judgements on each of them.

Grant Thornton

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The Income Spectrum (March 2017)

Helping local authorities to achieve revenue and strategic objectives to create vibrant economies

Grant Thornton market insight

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our new report “The Income Spectrum” gives local authorities the tools needed to maximise their ability to do so.

Our research on income generation, which includes our CFO Insights tool, suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).

the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in a way which achieves multiple strategic outcomes for the same spend, examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

To support local authorities as they develop income generation strategies, the report provides;

- case study examples
- local authority spend analysis
- examples of innovative financial mechanisms
- critical success factors to consider.



The Board: creating and protecting value (April 2017)

Our new cross sector Board Effectiveness Report

In all sectors boards are increasingly coming under pressure from both the market and regulators in terms of effectiveness and accountability. Building on the success of our cross sector audit committee effectiveness survey “Knowing The Ropes” the Grant Thornton Governance Institute extended its research to look at the effectiveness of boards across the corporate, public and not for profit sectors.

This report raise key questions that all boards should ask themselves to challenge their effectiveness. Their organisations may operate in different sectors and be subject to a variety of statutory and governance requirements, but they all share a common overriding principle: the governing body is a collective charged with developing the organisation’s purpose.

Key messages:

- Page 80
- There is a strong future focus on boards
 - Executive behaviours tend to dominate - not the best scenario for good governance or an organisation’s future focus
 - There are strongly held opinions about the relationship between the board and the executive which will impact on efficiency
 - More than 88% of respondents see their executives as being strong leaders of the organisation
 - There is a clear focus on organisational culture and values across all sectors – 93% see the executive board members modelling the values of the organisation
 - Non-executives also need to live and breathe those values – only 82% of respondents agreed that the non-executives inspire and guide the executive to realise the organisation’s purpose
 - Only 75% of respondents feel that the recruitment process of non-executives is rigorous, well-documented or transparent
 - Over 60% of board members believe that are adequate processes in place to evaluate performance

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This framework allows organisations to have a better understanding about where they are focusing their energies.

Download the report here: <http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>



Local Government Accounting and other issues

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Local Government Finance Settlement

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published.

http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

National developments

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

- having a responsible investment strategy
- reporting to employers and members

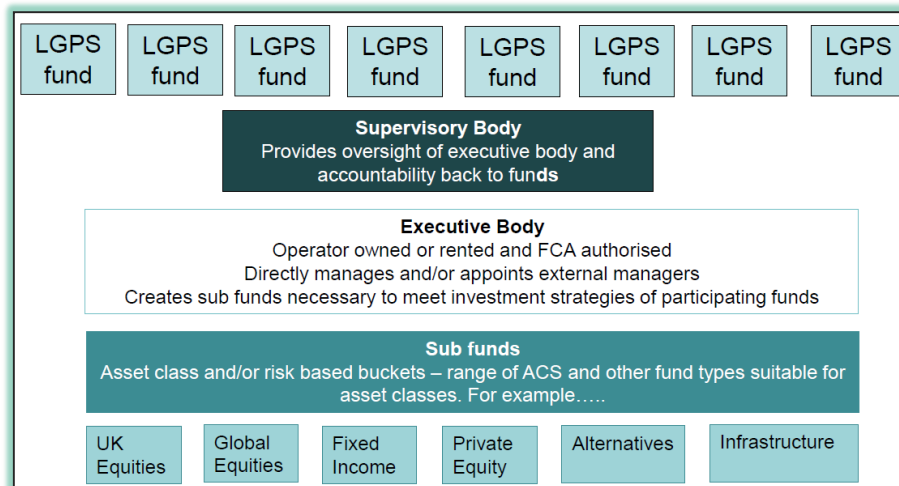
Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article [Clear pools: the future of the LGPS](http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps) highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds.

National developments

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?>



typical structure of LGPS Pool



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GRT102468

SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme

2017/18





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>Chairman: Councillor Nicholas Hampshire Party: Conservative Ward: Borden and Grove Park Phone: 01795 477560 (evening only), 07739 108756 (daytime) Email: nicholashampshire@hotmail.com</p>		<p>Vice- Chairman Councillor Nigel Kay Party: Conservative Ward: St Ann's Phone: 01795 531298/07710 487129 Email: nigelkay@swale.gov.uk</p>
	<p>Councillor Andy Booth Party: Conservative Ward: Minster Cliffs Phone: 07912 464213 Email: andybooth@swale.gov.uk</p>		<p>Councillor Roger Clark Party: Conservative Ward: Milton Regis Phone: 07960 381095 Email: clark.miltonregis@gmail.com</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 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>21 June 2017</i>	Internal Audit Annual Report 2016/17	Rich Clarke
	Annual Governance Statement	Nick Vickers
	Audit Committee Annual Report	Rich Clarke
	Fee Letter 2017/18	External Audit
	2016/17 Audit Plan – External Audit	External Audit
	Audit Update Report 2016/17	External Audit
	Audit Committee Work Programme 2017/18	Democratic Services
<i>13 September 2017</i>	Annual Governance Report and Annual Accounts 2016/17	Nick Vickers
	Annual Treasury Management Report 2016/17	Nick Vickers
	Mid Kent Services Fraud and Compliance	Zoe Kent
	Audit Committee Work Programme	Democratic Services
<i>29 November 2017</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>14 March 2017</i>	Internal Audit Plan 2017/18	Rich Clarke
	Strategic Risk Register and Action Plans	Rich Clarke
	Certification of Claims and Returns	External Audit
	Audit Committee Work Programme	Democratic Services

DRAFT

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