

## AGENDA

### AUDIT COMMITTEE MEETING

Date: Wednesday, 29 November 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

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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 13 September 2017 (Minute Nos. 218 - 225) as a correct record.

#### **Part A Minute for Recommendation to Council**

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#### **Part B Minutes for Information**

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### **Issued on Monday, 20 November 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](http://www.swale.gov.uk)

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

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<b>Audit Committee</b>		<b>Agenda Item: 5</b>
<b>Meeting Date</b>	29 November 2017	
<b>Report Title</b>	Treasury Management Half Year Report 2017/18	
<b>Cabinet Member</b>	Duncan Dewar-Whalley, Cabinet Member for Finance & Performance	
<b>SMT Lead</b>	Nick Vickers, Chief Financial Officer	
<b>Head of Service</b>	Nick Vickers, Chief Financial Officer	
<b>Lead Officer</b>	Olga Cole, Management Accountant	
<b>Key Decision</b>	No	
<b>Classification</b>	Open	
<b>Recommendations</b>	1. To note the performance information in this report. 2. To approve the prudential and treasury management indicators within the report.	

## 1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2017/18, including compliance with treasury limits and Prudential and Treasury Performance Indicators. The report will go to Council on 24 January 2018.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2011 Edition, which requires the Council to approve treasury management semi-annual and annual reports.

## 2. Background

### Market Environment

- 2.1 The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June, highlighting that some Monetary Policy Committee (MPC) members were more concerned about rising inflation than the risks to growth. Although at September's meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their language, implying a rise in Bank Rate in "the coming months". At its meeting ending on 1 November 2017, the MPC voted by a majority of 7-2 to increase Bank Rate by 0.25 percentage points, to 0.5%.
- 2.2 CPI inflation rose to 3% in September. The MPC still expects inflation to peak above 3% in October, as the past depreciation of sterling and recent increases

in energy prices continue to pass through to consumer prices. The effects of rising import prices on inflation are expected to diminish moving forward. Given the likely weakness of the economy, further rate rises could be very limited.

- 2.3 There were a few credit rating changes during the first six months of 2017/18. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.
- 2.4 Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. In May, following Arlingclose's advice, the Council reduced the maximum duration of unsecured investments with Bank of Scotland, HSBC Bank and Lloyds Bank from 13 months to 6 months as until banks' new structures are finally determined and published, the different credit risks of the 'retail' and 'investment' banks cannot be known for certain.
- 2.5 The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21 January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

## Regulatory Updates

### MiFID II

- 2.6 Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from 3 January 2018, as a result of the Second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the Council must have an investment balance of at least £10 million and ensure that the person authorised to make investment decisions on behalf of the Council must have the expertise, experience and knowledge to make investment decisions and understand the risks involved.
- 2.7 If the Council does not "opt up" to be a professional client it will mean that it will be restricted in its investments with limited access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Council meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status. However, it has to demonstrate this to each individual counterparty.

## CIPFA Consultation on Prudential and Treasury Management Codes

- 2.8 In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes, and after reviewing responses, launched a further consultation on changes to the codes in August with a deadline for responses of 30 September 2017. The proposed changes include a new high-level Capital Strategy report to full Council which will cover the basics of the capital programme and treasury management, and the removal of certain prudential indicators, and the inclusion of commercial property investments and financial guarantees in the Treasury Management Strategy.
- 2.9 CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year.

## DCLG Framework

- 2.10 The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its MRP guidance) for local authorities in England.

## Borrowing

- 2.11 The Council continues to be debt free. Council has agreed to borrow up to £60m for capital purposes only - subject to individual business cases to Cabinet. The initial £30m intended to cover Sittingbourne Town Centre is the only borrowing planned – the additional £30m has not been earmarked for any projects. The aim is to use this permission strategically to drive forward regeneration of the borough and produce higher investment returns for the Council. Given the underlying financial position of the Council debt interest costs need to be met through rental income not from the base budget. The Council will also look to internally borrow to minimise debt charge costs.

## Investments

2.12 The counterparties agreed by Cabinet and Council earlier this year when the 2017/18 Treasury Strategy was approved are:

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice – to date only Nordea used)  Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase  Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian Bank Ltd, Westpac Banking Corp  Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	£1.5m limit per bank, £3m country limit
Short Term Money Market Funds	£3m each
Cash Plus Funds and Short Dated Bond Funds	£3m each
Multi Asset Income Funds	£3m each
CCLA LAMIT Local Authority Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bond Funds and Corporate Bonds	£3m in aggregate
Covered Bonds	£9m in aggregate with £3m limit per bank
Absolute return funds	£3m in aggregate
Equity income funds	£3m in aggregate
Direct investments	Subject to business case to Cabinet

- 2.13 Investments held at 30 September 2017 can be found in Appendix I.
- 2.14 The Council did not need to borrow to cover cash flow purposes in the period.
- 2.15 Interest income received for the first half of 2017/18 was £128,313.
- 2.16 For the six months to 30 September 2017, the Council maintained an average sum invested of £38m compared with an original budget of £35m, and an average rate of return of 0.68% compared to a budget of 0.30%.
- 2.17 The results for the six months to 30 September 2017 show that the Council achieved 0.57% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.43% average return rate above the average Bank of England Base Rate.
- 2.18 The Council has £3m invested in an externally managed property fund which is the CCLA fund which generated an average total return of 4.77%, comprising a £71,730 income return. Since this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

#### Compliance with Prudential Indicators

- 2.19 The Council can confirm that it has complied with its Prudential Indicators for 2017/18 which were set in February 2017 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.
- 2.20 Prudential and Treasury Management Indicators are set out in Appendix II.

### **3. Proposals**

- 3.1 No changes are proposed at this stage.

### **4. Alternative Options**

- 4.1 The Chief Financial Officer will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

### **5. Consultation Undertaken**

- 5.1 Consultation has been undertaken with Arlingclose.

## 6. Implications

Issue	Implications
Corporate Plan	No direct application.
Financial, Resource and Property	As detailed in the report.
Legal and Statutory	The Council has powers to both borrow funds to support its work and to invest and earn interest on funds available.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Sustainability	None
Health and Wellbeing	None
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	None

## 7. Appendices

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

- Appendix I: Investments as at 30 September 2017
- Appendix II: Prudential and Treasury Management Indicators

## 8. Background Papers

None

## Investments as at 30 September 2017

Counterparty	Long-Term Rating (S&P)	Balance Invested as at 30 September 2017 £'000
Lloyds Bank Plc	Aa3	3,000
Santander UK Plc	Aa3	3,000
Svenska Handelsbanken	Aa2	3,000
Close Brothers Ltd	Aa3	1,500
HSBC Bank	Aa3	3,000
<b>Total Banks and Building Society</b>		<b>13,500</b>
Goldman Sachs Money Market Fund	AAAm	2,740
Black Rock Money Market Fund	AAAm	3,000
BNP Paribas Money Market Fund	AAAm	3,000
Amundi Money Market Fund	AAAm	3,000
Morgan Stanley Money Market Fund	AAAm	3,000
Invesco Money Market Fund	AAAm	3,000
CCLA Property Fund		3,000
<b>Total Money Market and Property Funds</b>		<b>20,740</b>
<b>Gross Total</b>		<b>34,240</b>

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

**Investment Activity in 2017/18**

Investments	Balance on 01/04/2017 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2017 £'000	Average Rate %	Average Life
Short Term Investments	26,520	95,657	(90,937)	31,240	0.33	135 days
Long Term Investments	3,000	0	0	3,000	4.77	-
<b>Total Investments</b>	<b>29,520</b>	<b>95,657</b>	<b>(90,937)</b>	<b>34,240</b>	<b>0.68</b>	
Increase/(Decrease) in Investments				4,720		

## Prudential and Treasury Management Indicators

### 1. Background

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

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

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

<b>Gross Debt and the Capital Financing Requirement</b>	<b>2016/17 Actual £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
Gross CFR	4,530	4,294	4,074	3,929
Less: Other Long Term Liabilities	(384)	(181)	(24)	(3)
<b>Borrowing CFR</b>	<b>4,146</b>	<b>4,113</b>	<b>4,050</b>	<b>3,926</b>
Less: Existing Profile of Borrowing	0	0	0	0
<b>Cumulative Maximum External Borrowing Requirement.</b>	<b>4,146</b>	<b>4,113</b>	<b>4,050</b>	<b>3,926</b>

The Authority does not have any external borrowing for capital purposes.

### 3. Capital Expenditure

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

<b>Capital Expenditure and Financing</b>	<b>2016/17 Actual £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
<b>Total Expenditure</b>	<b>2,954</b>	<b>1,715</b>	<b>1,680</b>	<b>1,680</b>
Capital receipts	243	35	0	0
Grants	2,482	1,665	1,665	1,665
Revenue contributions	229	15	15	15
<b>Total Financing</b>	<b>2,954</b>	<b>1,715</b>	<b>1,680</b>	<b>1,680</b>



## Prudential and Treasury Management Indicators

### 4. Ratio of Financing Costs to Net Revenue Stream

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

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2016/17 Actual %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
Total	1.11	(0.04)	(0.12)	(0.23)

### 5. Capital Financing Requirement

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

<b>Capital Financing Requirement</b>	<b>2016/17 Actual £'000</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
Total Capital Financing Requirement	4,530	4,294	4,074	3,929

### 6. Actual External Debt

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

<b>Actual External Debt as at 31/03/2017</b>	<b>£'000</b>
Borrowing	0
Other Long-term Liabilities	384
<b>Total</b>	<b>384</b>

### 8. Authorised Limit and Operational Boundary for External Debt

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

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

## Prudential and Treasury Management Indicators

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

At the Council meeting on 15 February 2017, Members approved an additional £30m borrowing to allow for funding to be provided up a maximum borrowing of £65m (minute 1197/02/2017).

<b>Authorised Limit for External Debt</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
Borrowing	65,000	65,000	65,000
Other Long-term Liabilities	2,000	2,000	2,000
<b>Total Debt</b>	<b>67,000</b>	<b>67,000</b>	<b>67,000</b>

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

<b>Operational Boundary</b>	<b>2017/18 Estimate £'000</b>	<b>2018/19 Estimate £'000</b>	<b>2019/20 Estimate £'000</b>
Borrowing	60,000	60,000	60,000
Other Long-term Liabilities	181	24	3
<b>Total Debt</b>	<b>60,181</b>	<b>60,024</b>	<b>60,003</b>

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2017.

### 9. Adoption of the CIPFA Treasury Management Code

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

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

## Prudential and Treasury Management Indicators

**10. Interest Rate Exposure**

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

<b>Upper Limit for Interest Rate Exposure</b>	<b>Existing level at 30/09/17 %</b>	<b>2017/18 Approved Limit %</b>	<b>2018/19 Approved Limit %</b>	<b>2019/20 Approved Limit %</b>
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-40	-100	-100	-100
<b>Upper Limit for Fixed Interest Rate Exposure</b>	<b>-40</b>	<b>0</b>	<b>0</b>	<b>0</b>
Interest on variable rate borrowing	0	100	100	100
Interest on variable rate investments	-60	-100	-100	-100
<b>Upper Limit for Variable Interest Rate Exposure</b>	<b>-60</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

**11. Maturity Structure of Fixed Rate Borrowing**

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

<b>Maturity structure of fixed rate borrowing</b>	<b>Existing level at 30/09/17 %</b>	<b>Lower Limit for 2017/18 %</b>	<b>Upper Limit for 2017/18 %</b>	<b>Complied</b>
Under 12 months	0	0	100	√
12 months and within 24 months	0	0	100	√
24 months and within 5 years	0	0	100	√
5 years and within 10 years	0	0	100	√
10 years and above	0	0	100	√

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during the six months to 30 September 2017.

**12. Credit Risk**

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

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

## Prudential and Treasury Management Indicators

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

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

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

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

### 13. Principal Sums Invested for Periods Longer than over 364 days

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

<b>Total Principal Sums Invested Over 364 Days</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Upper Limit Estimate	10,000	10,000	10,000
Actual	3,000	-	-
Complied	√	√	√

### 14. Investment Benchmarking for the six months to 30 September 2017

<b>Average Actual Return on Investments</b>	<b>Original Estimate Return on Investments</b>	<b>Average Bank Base Rate</b>	<b>Average 7 day LIBID Rate</b>
0.68%	0.30%	0.25%	0.11%

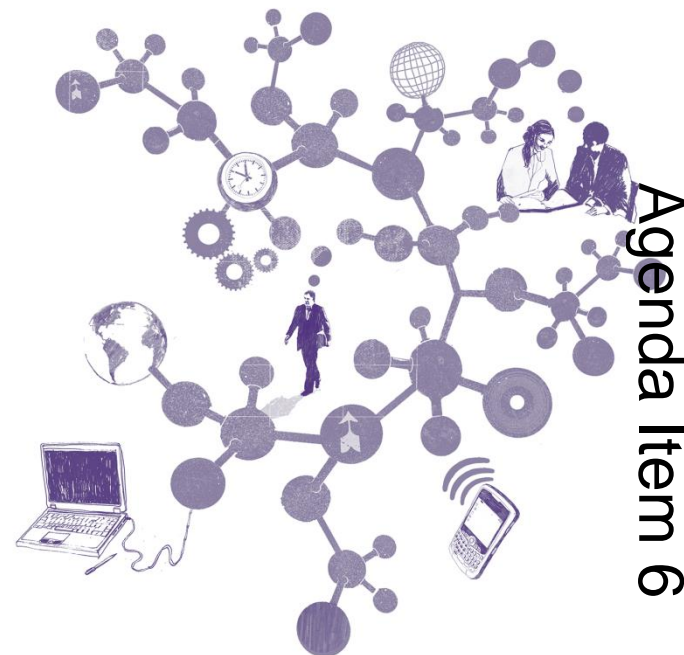
# The Annual Audit Letter for Swale Borough Council

**Year ended 31 March 2017**

October 2017

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Agenda Item 6

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**Appendices**

A Reports issued and fees

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# Executive summary

## Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Council's Audit Committee (as those charged with governance) in our Audit Findings Report on 13 September 2017.

## Our responsibilities

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

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

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

## Our work

### Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

### Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

### Certificate

We certified that we had completed the audit of the accounts of Swale Borough Council in accordance with the requirements of the Code on 28 September 2017.

### Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2016/17 claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our 2016/17 Certification Report.

## Working with the Council

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

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## Our audit approach

### Materiality

In our audit of the Council's accounts we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that could influence the economic decisions of a reasonably knowledgeable person.

We determined materiality for our audit of the Council's accounts to be £1,04,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as in our view users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £85,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

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

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

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

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

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

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



# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Employee remuneration understated</b></p> <p>For all Councils employee remuneration is a significant element of total expenditure.</p> <p>We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>gained an understanding of processes and key controls</li> <li>performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>tested payroll information for a sample of employees to supporting documentation</li> <li>reviewed yearend reconciliations to ensure the information in the accounts was complete</li> <li>performed a trend analysis to assess the completeness of payroll information.</li> </ul>	<p>We did not identify any issues to report.</p>
<p><b>Operating expenses understated</b></p> <p>For all Councils operating expenditure is a significant element of total expenditure.</p> <p>We designed our work to address the risk that creditors had been understated or had not been recorded in the correct period.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>gained an understanding of processes and key controls</li> <li>performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>tested creditor amounts to supporting documentation</li> <li>tested payments posted to 2017/18 to ensure that these had been posted to the correct accounting year.</li> </ul>	<p>Our sample testing identified one item appearing as expenditure in 2017/18 which should have been accounted for in 2016/17, but we concluded that there was no material issue for our opinion.</p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements..</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>gained an understanding of processes and key controls</li> <li>performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>reviewed the competence, expertise and objectivity of the specialist actuary performing the pension fund valuation</li> <li>reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made</li> <li>reviewed the consistency of disclosures in the financial statements with the actuarial report</li> </ul>	<p>We did not identify any issues to report.</p>

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b></p> <p>For all Councils the valuation of Property Plant And Equipment (PPE) assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that PPE revaluation measurements were not correct.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>gained an understanding of system controls and performed a "walkthrough" of the key controls to assess if these were designed effectively</li> <li>reviewed management's processes and assumptions for estimating asset values, including review of the work performed for the Council by external valuers</li> <li>reviewed the competence, expertise and objectivity of the external valuers</li> <li>performed testing to ensure information on revaluations was correctly input to the Council's asset register</li> <li>for those assets which were not revalued in 2016/17, reviewed management's process to ensure that the value included in the financial statements was not materially misstated.</li> </ul>	<p>We did not identify any issues to report.</p>
<p><b>Financial statements</b></p> <p>In 2016/17 all Councils were required to make changes to the way income and expenditure is classified and reported in the accounts.</p> <p>These changes also required a restatement of the previous year figures.</p> <p>We designed our work to address the risk that these changes had not been implemented correctly.</p>	<p>As part of our audit work we reviewed;</p> <ul style="list-style-type: none"> <li>the Council's process for making the required changes.</li> <li>the basis for reclassifying income and expenditure in the 2016/17 financial statements</li> <li>the restatement of the previous year figures.</li> <li>the new Expenditure and Funding Analysis (EFA) note to the accounts</li> </ul>	<p>We;</p> <ul style="list-style-type: none"> <li>concluded that the Council had implemented all of the required changes</li> <li>agreed an amendment to the Council's workings to remove internal recharges from the Comprehensive Income and Expenditure Statement. This reduced both gross income and gross expenditure by £14m, but there was no impact on the Council's net reported financial position. A small remaining adjustment was not actioned; this adjustment would have caused significant additional work but would have had no net impact.</li> </ul>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

We also review the Council's Annual Governance Statement. We concluded that this had been prepared in accordance with the relevant guidance and that the information it contained was consistent with our knowledge and with the accounts.

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

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 13 September 2017.

The Council's draft accounts were approved for issue ahead of the national deadline of 30 June 2017. Both the accounts and the supporting working papers were prepared to a very high standard.

We agreed an amendment to remove internal recharges from the Comprehensive Income & Expenditure Statement. There were no other adjustments to the primary financial statements. A small number of amendments were agreed to disclosure notes.

The Council continues to be proactive in reviewing the presentation of the financial statements under the "decluttering" agenda, and to make good progress in preparing for the acceleration of the national accounts timetable from 2017/18, when draft financial statements will need to be produced by 31 May.

## **Other financial statement responsibilities**

We are required to give an opinion on whether other information published with the audited financial statements is consistent with the accounts.

We considered the other information contained in the Council's Annual Financial Report. We concluded that this information was consistent with our knowledge and with the audited financial statements.

---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

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

## Key findings

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

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

## Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

## Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial planning</b> The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.</p>	<p>We updated our understanding of the Council's medium term financial planning framework and its planned approach to addressing future reductions in central government funding.</p>	<p>The Council has a history of sound financial management and maintains a Medium Term Financial Plan (MTFP) which is regularly updated and aligned with the annual budget-setting process.</p> <p>The Council achieved a gross revenue underspend on services of £1,419,000 in 2016/17. Current reporting indicates that it will again underspend against revenue budgets in 2017/18. This pattern of underspends against budget indicates that the overall assumptions within the MTFP remain prudent.</p> <p>The local government finance settlement for 2017/18 created additional pressures for the Council, as it faces significant reductions in future funding from New Homes Bonus. It also faces a substantial ongoing increase in the levy from the Lower Medway Internal Drainage Board. A balanced budget has been set for 2017/18 using a small contribution from general reserves, but further work is required to address the funding gaps for future years.</p> <p>The Council is taking a pro-active approach to address these pressures. It continues to develop alternative income streams, particularly through the Spirit of Sittingbourne regeneration scheme where additional income will be generated through the Council's move to a funding role. It is also taking action to deliver further efficiencies through an internal Transformation Unit, and working with a private sector partner to help maximise income from developing or selling Council assets.</p> <p>The Council has a clear understanding of the need to respond to changes in the framework for local government funding. The MTFP shows how the immediate financial pressures facing the Council can be mitigated through additional income streams in the medium term. However, uncertainties remain, for example around the future framework for business rates, and it will be important that the Council continues to maintain a robust financial planning framework.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	60,739	60,739	60,739
Housing Benefit Grant Certification	18,611	TBC	26,700
<b>Total fees (excluding VAT)</b>	<b>79,350</b>	<b>TBC</b>	<b>87,439</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	<b>None</b>
<b>Non-audit services</b>	<b>None</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Reports issued

Report	Date issued
Audit Plan	May 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017
Certification Report	January 2018 (planned)



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# Audit Committee Swale Borough Council Progress Report and Update Year ended 31 March 2018

Page 25 November 2017

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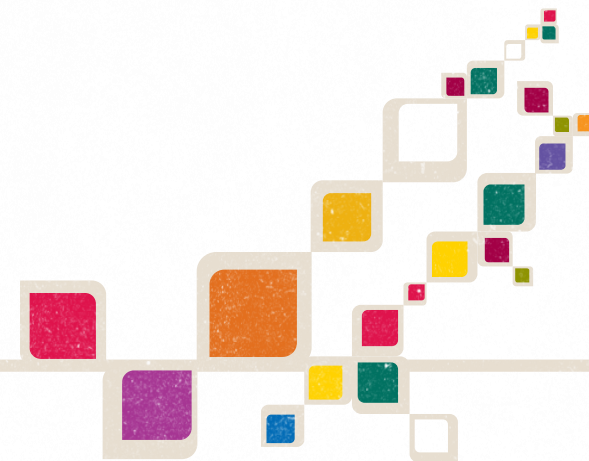
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



# 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.

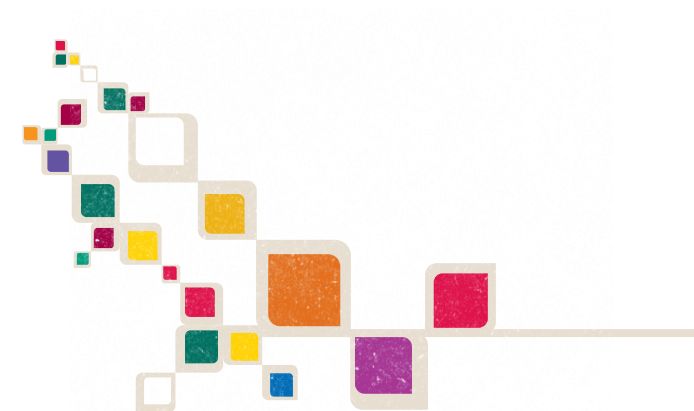
Page 27 Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at <http://www.grantthornton.co.uk/industries/public-sector/>. Here you can download copies of the reports mentioned in this update and other recent publications and articles, including :

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures' and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

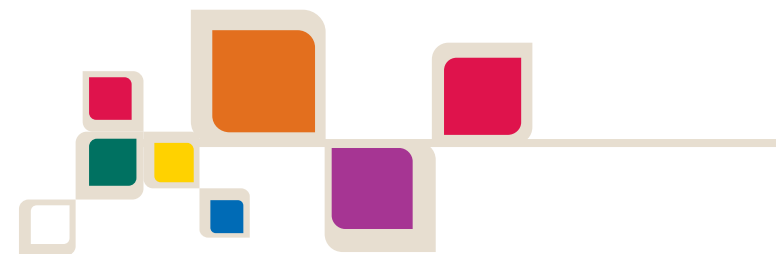
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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# Planned work



## 2017/18 work

## Planned Date

## Comments

### Interim accounts audit

Our interim audit work will include:

- 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.

January 2017 – March 2018

### 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 2017-18 financial statements.

March 2018

### Final accounts audit

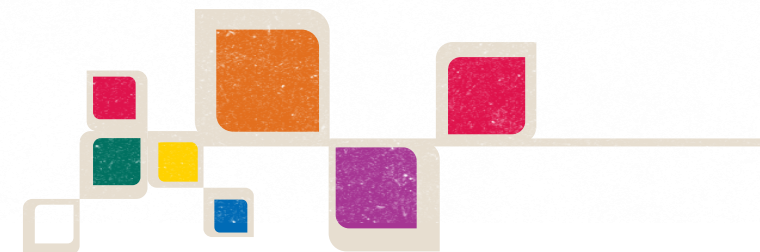
Work to complete our audit of the 2017-18 financial statements.

July 2018

We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.



# Planned work



2017/18 work	Planned Date	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>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.</p> <p>In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: <i>"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"</i>.</p> <p>AGN03 provides examples of proper arrangements using three sub-criteria;</p> <ul style="list-style-type: none"> <li>• informed decision making</li> <li>• sustainable resource deployment</li> <li>• working with partners and other third parties.</li> </ul> <p>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.</p>	<p>February – July 2018</p>	<p>We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.</p>



# Grant Thornton Publications

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# A Manifesto for a Vibrant Economy

## Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breathe, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

## Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

**Guy Clifton – Head of Local Government Advisory**

Grant Thornton publications

Our manifesto is available via the link below



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

# Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

## Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre

- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so

- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice

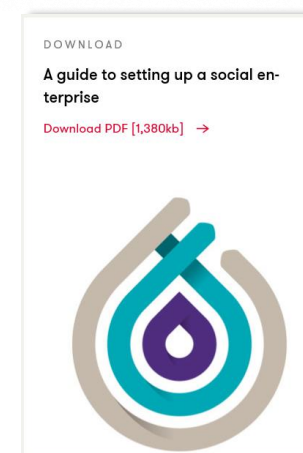
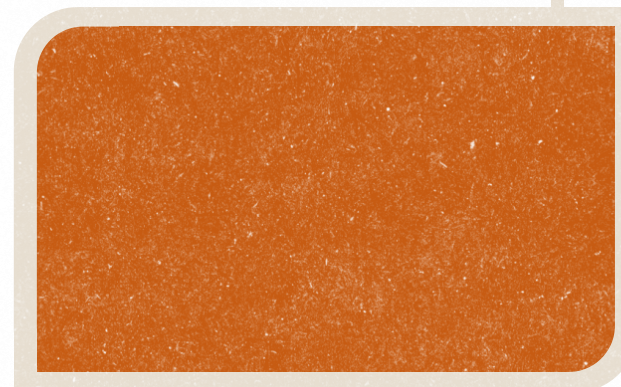
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

## Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

## Grant Thornton publications



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>



# CFO Insights

CFO Insights is the market leading online analysis tool that gives councils instant access to insight on the financial performance, socio-economic context and service outcomes of every council in England, Scotland and Wales.

Now with over 1,000 users, the tool provides a three-dimensional lens through which to understand council income and spend by service, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

**“Highlight recommend CFO insights if you want data and evidence to drive what you do”**

Andrew Burns, Staffordshire County Council  
Chief Financial Officer, CIPFA President

**“The main benefit of CFO Insights for me is the ability to focus upon outcomes as well as costs in order to prove or indeed disprove long held hypotheses”**

Guy Lonsdale, Deputy S151 Officer, North East  
Lincolnshire Council

**By identifying areas with similar socio-economic characteristics, CFO Insights immediately helps you:**

- Identify savings
- Identify best practice
- Contextualise spend
- Highlight service and financial outliers
- Understand value for money
- Communicate to key stakeholders

## NEW CFO insights app

**Get:**

- free on iOS and android devices
- headline financial data
- comparisons on key service line outcomes
- insightful commentary on current events in public sector
- a spotlight on best practice and innovation in the local government sector
- a taster of our platform that is used by over 70 authorities to benchmark their spend

## GT Insights & Analytics





# Local Government Accounting and other issues

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# Procurement of external audit services

Public Sector  
Audit Appointments

## Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

## Sector Issues

### Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December.



### Housing Benefit (Subsidy) Assurance Process 2018/19: Module 1 Special Purpose Framework Instruction:

This Circular sets out the arrangements for the audit of the housing benefits subsidy for 2018/19. It is for the LA to appoint a reporting accountant to undertake this work and notify the DWP of this. A standard letter of notification for the LA use is set out in Appendix 1. This letter of notification must be issued to the DWP by the LA no later than the 1st March 2018.

# Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

## Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)

- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

### Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

## Sector Issues

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

# Local Authority 2016/17 Revenue Expenditure and Financing

## Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
- Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
- The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
- Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
- Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
- Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/639755/Revenue\\_Expenditure\\_and\\_Financing\\_2016-17\\_Provisional\\_Outturn.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf)

## Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

# Independent Review of Building Regulations and Fire Safety

## Sector Issues

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

The full terms of reference are available at:

<https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-terms-of-reference>



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<b>Audit Committee Meeting</b>	
<b>Meeting Date</b>	29 November 2017
<b>Report Title</b>	Interim Internal Audit & Assurance Report 2017/18
<b>Cabinet Member</b>	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
<b>SMT Lead</b>	Nick Vickers, Chief Financial Officer
<b>Head of Service</b>	Rich Clarke, Head of Audit Partnership
<b>Lead Officer</b>	Rich Clarke, Head of Audit Partnership
<b>Key Decision</b>	No
<b>Classification</b>	Open
<b>Recommendations</b>	1. To <b>note</b> progress against the 2017/18 Internal Audit & Assurance Plan and findings so far.

## 1 Purpose of Report and Executive Summary

- 1.1 The report provides to Members an update on progress so far towards completing the 2017/18 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.
- 1.2 Our results so far in 2017/18 have yielded mainly positive assurance ratings with the exception of our work on the *Leisure Centre Contract* and *Rent Deposits* as detailed in the report. However, in both instances officers have responded swiftly to begin addressing the matters raised and so there are no matters of broader concern we wish to bring to Members' attention.

## 2 Background

- 2.1 The report provides an update for Members on progress against the 2017/18 Internal Audit & Assurance plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:
  - Our audit charter,
  - The independence of internal audit,
  - Audit plan changes and progress against the plan,
  - Resource needs of the audit service,
  - Results of audit work so far,
  - Affirming conformance with the Standards and Code of Ethics, and

- Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

- 2.2 We have made good progress through the plan so far, although highlight to Members a continuing absence in the team which may result in a small under-delivery at year end. Nevertheless, by continuing to adjust our plans according to the Council's risk profile, we remain confident of delivering a robust audit opinion by year end.
- 2.3 We note good levels of delivery for officers acting to addressing audit recommendations.
- 2.4 We also report our continuing conformance with the Standards (including independence) and the Code of Ethics. We also show our continued strong results on performance measures and the recent award of *Swale Stars Team of The Year* received by Mid Kent Audit.

### **3 Proposals**

- 3.1 To keep conformance with the Standards we must report progress periodically to Members. This report fulfils that duty and provides the opportunity for Members to review, comment on and question the progress we have made and the results we have reached.

### **4 Alternative Options**

- 4.1 We do not propose any alternative action.

### **5 Consultation Undertaken or Proposed**

- 5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers who have accepted all recommendations made so far in 2017/18.
- 5.2 We discussed the report in full with the Cabinet Member earlier this month. We have reflected his comments in the attached report.
- 5.3 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

### **6 Implications**

Issue	Implications
Corporate Plan	Internal audit and its findings provide assurance to Members on the

<b>Issue</b>	<b>Implications</b>
	effectiveness of the Council's governance. Good governance is necessary for successfully fulfilling the Corporate Plan.
Financial, Resource and Property	<p>Continuing the audit and assurance plan is within already approved budgetary headings and so needs no new funding for implementation.</p> <p>We will seek agreement for any new funding to deal with the matters mentioned in the report through the standard budgetary approach of Maidstone BC (our host authority) in consultation with Swale BC.</p>
Legal and Statutory	Reporting to Members in this way contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.
Crime and Disorder	The report makes no recommendations that impact crime and disorder.
Environmental Sustainability	The report makes no recommendations that impact environmental sustainability.
Health and Wellbeing	The report makes no recommendations that impact health and well being.
Risk Management and Health and Safety	<p>We present this report for information only so it has no direct risk management implications.</p> <p>Audit Standard 2060 demands we report to Members any risks accepted by management that in our view may be unacceptable to the organisation. For example, this might include audit recommendations that management refuse to address.</p> <p>There are no risks we have identified in our work that we believe management have unreasonably accepted.</p> <p>The report makes no recommendations that impact health and safety.</p>
Equality and Diversity	The report makes no recommendations that impact equality and diversity.
Privacy and Data Protection	The audit service collects no data directly from the public. Any data we collect during our reviews we hold in line with the Council's applicable policies.

## 7 Appendices

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

- Appendix I: Interim Internal Audit & Assurance Report

## **8 Background Papers**

None applicable.

# **Interim Internal Audit & Assurance Report**



**November 2017**

**Swale Borough Council**



# MID KENT AUDIT

## Introduction

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. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

### 2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

#### *Interpretation:*

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

## Audit Charter

3. This Committee approved our *Audit Charter* in March 2016. The Charter remains effective through the updated standards in April 2017. We will consider whether to recommend updates alongside our 2018/19 audit plan.

# MID KENT AUDIT

## Independence of internal audit

4. 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 based on our collaboration agreement.
5. Within Swale BC during 2017/18 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

## Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

## Resource Requirements

9. We reported in our plan presented to this Committee in March 2017 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

*We feel on current assessment the Audit Partnership has enough resources in both quantity and ability to deliver the audit plan and a robust overall audit opinion.*

10. Since that review we have seen various changes to our current and projected position. First we report with pleasure that one of our audit trainees, Ben Davis, has accepted an offer to continue as a permanent auditor on completing his qualification in 2018. When we began the training scheme in 2014 it was with the hope we would eventually develop our own qualified people who could continue contributing to our success. We take great pride in beginning to realise that hope. This move will increase the number of audit days available to the partnership.

# MID KENT AUDIT

11. However, we also continue dealing with long-term sickness absence of a senior member of the audit team. While in 2016/17 we were largely able to compensate for the absence through use of contractors and increased general productivity we are less able to cover the gap in 2017/18. In the spirit of greater resilience from working in partnership, no single authority will see a material loss but we do expect each will see some fall in available days.
12. Finally, we will look later in the year at our audit software. Originally through the efforts of the then Ashford team, Mid Kent have pioneered the use of “e-audit”. We were one of the first local authority teams to adopt electronic working when we began using Teammate software in 2001. Since then, though obviously upgraded, we have stuck with Teammate.
13. However, the increasing need to examine our costs carefully – the licence fees are by far our largest non-staff expense – have led us back to market. We will seek to establish the market, possibly jointly with Kent County Council, early in the New Year. This exercise and associated training if we buy new software will impact on the 2017/18 audit plan. However, we are confident that we will realise efficiencies in both cost and auditor time from 2018/19 onwards.
14. The result of these changes is a good chance we will not deliver in full the number of audit days set out in the 2017/18 plan. However, by continuing to focus on productivity and risk, we are confident that we will be in a position to deliver a robust overall opinion at year end.

## Audit Plan Progress

15. This Committee approved our *Annual Audit & Assurance Plan 2017/18* in March 2017. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2017 and expect completing enough to form our *Annual Opinion* by June 2018.
16. The table below shows progress in total number of days delivered against the plan (figures are to end of October 2017, about 42% through the audit year).



# MID KENT AUDIT

Category	2017/18 Plan Days	Outturn at Interim	Days Remaining
2016/17 Assurance Projects	0	36	N/A
2017/18 Assurance Projects	300	130	170
Risk Management	35	12	23
Counter Fraud Support	30	7	23
Member Support	20	6	14
Recommendation Follow-Up	30	23	7
Audit Planning	10	3	7
Contingency and Consultancy	45	18	27
<b>Totals (17/18 Work Only)</b>	<b>470</b>	<b>199</b>	<b>271</b>

17. Based on resources available to the partnership for the rest of the year we forecast delivery of around 232 further audit days. This will total 431 days (92% of planned).
18. We detail the specifics, and results, of this progress further within this report.

# MID KENT AUDIT

## Results of Audit Work

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

### Completed Assurance Projects

	Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
<b>2016/17 Assurance Projects Completed After 1 April 2017</b>						
	Accounts Payable	10	10	Apr-17	Strong	Reported to Members Jun-17
	Bank Reconciliation	12	12	Apr-17	Strong	Reported to Members Jun-17
	General Ledger: Journals & Feeder Systems	15	19	Apr-17	Strong	Reported to Members Jun-17
	Section 106 Agreements	15	18	Apr-17	Sound	Reported to Members Jun-17
	Complaints	15	16	Apr-17	Sound	Reported to Members Jun-17
	Residents' Parking	9*	10*	May-17	Sound	Reported to Members Jun-17
I	Payroll	5*	5*	Jun-17	Strong	
II	ICT Controls & Access	8*	5*	Jun-17	Sound	Budget reduced to 5 days during planning to reflect assurance from third party sources
III	Leisure Centre Contract	15	21	Jun-17	Weak	Budget overrun to investigate matters arising from review
IV	Housing Benefits	10	14	July-17	Sound	
V	Corporate Governance: Transparency Review	7*	6*	July-17	N/A	
VII	Rent Deposits	10	19	Aug-17	Weak	Budget overrun to investigate matters arising from review

# MID KENT AUDIT

	Title	Plan Days	17/18 Days	Report Issue	Assurance Rating	Notes
<b>Planned 2017/18 Assurance Projects Completed so far</b>						
VI	Safeguarding	15	16	July-17	Strong	
VIII	Litter Enforcement	15	17	Sept-17	Sound	
X	Business Rates	10	10	Oct-17	Strong	
XI	IT Disaster Recovery	15	15	Oct-17	Sound	
XII	Debt Recovery Service	5*	5*	Oct-17	Strong	
XIII	Business Continuity	15	17	Nov-17	Sound	
<b>Assurance Projects Added to the 2017/18 Plan and Completed</b>						
	Mid Kent Audit Mid Term Review	n/a	4*	Aug-17	N/A	See "Standards Compliance" section
IX	Homelessness Budget Review	n/a	11	Oct-17	N/A	

## Assurance Projects Awaiting Completion

	Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
<b>Planned 2017/18 Assurance Projects In Progress</b>					
	Land Charges	5*	8*	Nov-17	Draft report
	Payroll	6*	9*	Nov-17	Fieldwork
	Landlord Complaints	10	4	Dec-17	Fieldwork
	Building Maintenance	10	2	Jan-18	Planning
	Community Safety	15	4	Jan-18	Planning
	Corporate Planning	10	2	Jan-18	Planning
	Sports Pitches & Pavilions	10	3	Mar-18	Planning
	Stray Dogs	10	1	Mar-18	Planning

# MID KENT AUDIT

	Title	Plan Days	Days So Far	Expected Report Issue	Notes / Stage
	Legal Services	5*	1*	Apr-18	Planning
<b>Planned 2017/18 Assurance Projects Yet To Begin</b>					
	Financial Planning	7*	0	Q3	Four-way review
	Animal Licenses	5	0	Q4	
	Community Grants	5	0	Q4	
	Community Halls	10	0	Q4	
	Food Safety	5*	0	Q4	
	HR Policy Compliance	5*	0	Q4	
	Information Security	5*	0	Q4	
	Parking Income	6*	0	Q4	
	Pre-application Planning Service	15	0	Q4	
	Public Conveniences	10	0	Q4	
	Corporate Governance	6*	0	Q4+	Four-way review
	Staying Put	12	0	Q4+	
	Transformation Team	15	0	Q4+	
	Waste Income	10	0	Q4+	

We will continue to keep these projects under review in the light of our available resources and the changing risk position at the authority.

# MID KENT AUDIT

## Assurance Projects Removed from 2017/18 Plan

	Title	Plan Days	Days Spent	Postponed or cancelled?	Rationale and alternative assurance sources
Planned 2017/18 Assurance Projects Postponed or Cancelled					
	Equalities	10	0	Cancelled	Reviewed risk assessment and rolled into future corporate governance general assurance work.
	Electoral Register	15	0	Postponed	Deferred at client request due to workload pressure.
	Income Management	10	1	Cancelled	Replaced with consultancy support on PCI Compliance Project.

# MID KENT AUDIT

## Audit Project Summary Results

### I: Payroll (June 2017)

20. Our opinion based on our audit work is that there are **Strong** controls in both design and operation over the Payroll process.
21. 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.
22. 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

23. The service has now acted to implement our recommendation, so this report is closed.

### II: ICT Controls & Access (June 2017)

24. Our opinion based on our audit work is the ICT shared service has **Sound** controls in place to manage its risks and support achievement of its objectives.
25. We identified the service annually receives external assurance around its access controls and takes actions as a result to improve. The overall design and operation of controls is consistent with Government standards sufficient to permit access to the Public Sector Network (PSN Compliance).
26. However the service needs to update procedures to improve controls around user access when an officer leaves the partnership that are currently inconsistently applied. Our testing identified individuals who had accessed the Council's system after leaving employment and a number of other accounts that closed only when we identified them in our sample. The service also needs to introduce controls to ensure the prompt closure of access to applications users no longer need when they change job roles.

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

27. The service has since acted to implement all recommendations. This report is now closed.

# MID KENT AUDIT

## III: Leisure Centre - Contract Monitoring (June 2017)

28. Our opinion based on our audit work is that the Contracts Monitoring Team has **WEAK** controls in place to monitor the Leisure Centre Contract.
29. At the time of our review the Council was reviewing options for operating its Leisure Centre facilities in the future, which is recognised as one of the Council's major projects under the watch of Strategic Management Team.
30. Our review found that the Agreements which, taken together, describe the services to be provided at the Leisure Centre are comprehensive. The principal agreement relating to the operation of the Council's leisure centres operates between the Trust and its appointed operator SERCO. The Council's interests are primarily set out in a Funding agreement to the arrangement. The Council has a good relationship with the Trust and SERCO and undertakes adequate monitoring visits. These monitoring visits include regular site visits, checks on insurances and health and safety risk assessments.
31. However, we were unable to verify the accuracy of the operating fee payments made to SERCO during the audit and the Council was unable to explain the apparent discrepancy. As a result, we cannot give assurance over the adequacy of the controls, which have currently failed to identify the variance, and are unable to offer a resolution.
32. Since identifying this issue during our work, the service has reacted swiftly to investigate the cause of the difference, and have sought to take immediate action to resolve and correct the issue.

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

33. The service has since acted to address all of our recommendations. As a result we have reassessed the controls as **SOUND** and the report is now closed.

# MID KENT AUDIT

## IV: Housing Benefits – Processing of Claims (July 2017)

34. Our opinion based on our audit work is that the Housing Benefit team has **SOUND** controls in place for the processing of claims.
35. Our review found that the controls in place for the processing and payment of housing benefit claims are adequately designed. Our testing confirmed that the council processes new claims and changes in circumstances in accordance with procedures. The Council also makes housing benefit payments with accuracy and appropriate authorisation.
36. We established that the service has embedded improvements made to the quality control process since our last audit review in 2014/15. Also, the service has introduced additional controls to ensure changes to some bank details are independently checked before payment. However, this check is not comprehensive in that certain categories of bank details can still be changed by a single officer which leaves some exposed risk of fraud or error the service should address.

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

37. The service has since acted to implement all recommendations. This report is now closed.

## V: Governance Review (July 2017)

38. The purpose of this review was to focus on the transparency arrangements in place at Ashford, Maidstone, Swale and Tunbridge Wells Borough Council, against the requirements set out in Principle G of the [Good Governance Framework](#) (the Framework) and the [Local Government Transparency Code 2015](#) (the Code).
39. Our review has confirmed that all 4 Councils are fulfilling all transparency requirements. However, we have identified some areas where further consideration is needed to ensure full compliance with the Framework and Code.
40. The following table summarises some of the good practice and areas for improvement identified during the audit:



# MID KENT AUDIT

Authority	Notable practice	Areas for improvement
Ashford	<ul style="list-style-type: none"> <li>- Compilation of Annual Performance Report and Governance Statement</li> <li>- Ability to download &amp; view individual elements of the constitution</li> <li>- Clear and well understood reporting cycle to Management and Members</li> </ul>	<ul style="list-style-type: none"> <li>- Completeness of contract register information and garage data</li> <li>- Some information out of date – in particular social housing assets</li> </ul>
Maidstone	<ul style="list-style-type: none"> <li>- Centralised approach to consultations and analysis of results</li> </ul>	<ul style="list-style-type: none"> <li>- Inconsistent monitoring of transparency compliance</li> <li>- Some information incomplete or missing</li> </ul>
Swale	<ul style="list-style-type: none"> <li>- Good knowledge and monitoring of transparency requirements</li> <li>- Central transparency webpage</li> <li>- Benchmarking of performance data</li> <li>- Annual Governance Statement and Annual Performance Report</li> </ul>	<ul style="list-style-type: none"> <li>- Consultation</li> <li>- Publication of tender opportunities over £5k and the contracts register</li> <li>- Publication of local authority land information, parking spaces, staffing and Trade Union</li> </ul>
Tunbridge Wells	<ul style="list-style-type: none"> <li>- Consultation framework</li> </ul>	<ul style="list-style-type: none"> <li>- Co-ordination and monitoring of transparency obligations</li> <li>- No central transparency webpage</li> </ul>

41. The table below summarises the transparency requirements considered during the audit and our assessment for each element. An assessment key and a summary of the key findings are also provided below:

Good Governance Framework	Ashford	Maidstone	Swale	Tunbridge Wells
Officers' awareness of transparency requirements	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Monitoring compliance	COMPLIANT	PARTIAL	COMPLIANT	NOT COMPLIANT
Accessibility of Council information	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Service delivery	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Policy and strategy development	COMPLIANT	COMPLIANT	PARTIAL	COMPLIANT
Decision making	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Reporting	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Annual Performance Reporting	COMPLIANT	COMPLIANT	COMPLIANT	PARTIAL
Financial statements	COMPLIANT	COMPLIANT	COMPLIANT	COMPLIANT
Conclusion	COMPLIANT	PART COMPLIANT	PART COMPLIANT	IMPROVEMENT NEEDED

# MID KENT AUDIT

## VI: Safeguarding (July 2017)

42. Our opinion based on our audit work is that Safeguarding has **Strong** controls in place to satisfy the Council's statutory duties.
43. Our testing noted significant improvement in controls since our previous audit review. We identified a dedicated safeguarding office at the Council showing a commitment to safeguarding children and vulnerable adults. There is also strong Member lead involvement, leading to a new performance measure and a robust Section 11 compliance return.
44. We found peer councils recognise Swale's expertise. Swale officers regularly complete peer reviews of other authorities and reviews for the Kent Safeguarding Children Board (KSCB). The KSCB has also highlighted the Council bringing safeguarding levels within its contracting as best practice.
45. The Council has bought a new safeguarding database (MyConcern). The Council will introduce the database, after tailoring to meet its needs, in October 2017. Having a tailored database will make the Council unique in Kent.
46. We have one remaining concern, on data retention. The service should seek clarification on fitting retention periods for safeguarding records. The Council should include this information, once clarified, in its document retention policy.

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

47. The sole recommendation for action is due in December 2017. We will follow up on implementation early in the new-year.

## VII: Rent Deposits (August 2017)

48. Our opinion based on our audit work is that the Housing service has **WEAK** controls in place for the administration, payment and recovery of rent deposit bonds. These bonds operate as a security deposit for (vulnerable) tenants who are unable to afford a rent deposit, to help them to secure appropriate accommodation.
49. While the Council monitors some of the bonds effectively, we identified various concerns in our testing. These include a failure to seek proof the landlord complied with the agreement before the Council released payment. We found in some cases

# MID KENT AUDIT

this arose as the Council had not updated agreements to reflect current procedures and the landlord accreditation status. We also note, in some instances, although properties had been inspected, safety certificates had not been retained.

50. Our testing found the Council pays bonds accurately to landlords. However, recovery action is not regularly monitored as anticipated by the terms of the scheme.

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

51. The service is currently under review from the Council's transformation team and so will address these recommendations before the end of 2017 alongside any improvements from the transformation review. We will follow up on these actions early in the new-year.

## VIII: Litter Enforcement (September 2017)

52. Our opinion based on our audit work is that the Environmental Response Team has **SOUND** controls in place to monitor and manage the Litter Enforcement contract.
53. Our testing established that the litter enforcement service, provided by Kingdom Security, is monitored in accordance with the contract. There is a close working relationship between the Council and Kingdom which enables continuing service development and effective contract monitoring. We also note Kingdom continues to meet the specified conditions of service as specified in the contract. We established during the review that the Council is satisfied with the service provided by Kingdom Security.
54. However financial procedures over the reconciliation of income and verifying invoices should be improved to ensure all income due to the Council is received and / or to identify and resolve variances. Monitoring records for cancellations and write offs should also be improved to ensure the Council is correctly charged for Fixed Penalty Notices (FPNs) issued.

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

55. The service acted to address two of the three recommendations during the time we finalised our report. The third recommendation is due before the end of 2017 and we will follow-up action early in the new-year.

# MID KENT AUDIT

## IX: Homelessness Budget Outturn (October 2017)

56. The Head of Finance and Director of Regeneration invited us to review the circumstances leading to an overspend 170% greater at year-end than forecast in January 2017. We looked both at the specific circumstances and sought to find out how the service could potentially achieve more accurate forecasting in future.
57. We found that demand leads the homelessness budget with few fixed costs; with total costs being hard to predict for all authorities. The Council expects budget managers to develop and use forecasting methods suitable to their spending. However, we found the service had relied heavily on the 'straight line' forecast produced automatically by the accounting software that better suits stable predictable budgets such as salary. Because of using this method, the Council missed the effect of a spike in demand across the winter of 2016/17 from its budget forecasts resulting in a large variation.
58. We advised the Council to work towards developing budget forecasting models that take greater account of demand. We also advised strengthening internal communications so the Council can reflect rapid changes to activity in its reporting.
59. As a consultancy review, we did not give this work an assurance rating nor provide recommendations for formal follow-up. However, we will take into consideration our findings from this review while completing our risk assessment ahead of 2018/19 audit planning.

## X: Business Rates (October 2017)

60. Our opinion based on our audit work is the Council has **Strong** controls in place over valuation liability, billing and refunds of business rates.
61. Our review of the Business Rates system, documented in July 2015, found no major changes, meaning control design remains strong.
62. The rest of our testing confirms controls on valuation, liability and billing work effectively – property amendments are uploaded accurately and relief was found to have been awarded in accordance with guidance and procedures.
63. Controls over the refunds process are strong and our testing confirmed appropriate authorisation and adequate separation of duties.

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

# MID KENT AUDIT

64. The service is currently completing an action to review valuation office notifications to address our findings. We will consider the results of that review as part of our follow-up work in 2018.

## XI: IT Disaster Recovery (October 2017)

65. Our opinion based on our audit work is that the ICT shared service has **Sound** controls in place to manage its Disaster Recovery (DR) arrangements.
66. The service has well designed arrangements to allow effective response to a disaster with prompt service restoration. Documentation is clear with well-considered roles plus comprehensive backup arrangements, secure communication and regular testing. However, we found some minor instances of documentation falling behind developments in wider business continuity that varied between the partner authorities. The service holds significant experience and expertise including offering advice to other authorities, but we identified opportunities to better document and manage that resource.

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

67. Mid Kent ICT has acted swiftly to address the recommendations, which are all due for action before the end of 2017. We will follow up on those actions early in 2018.

## XII: Debt Recovery Service (October 2017)

68. Our opinion based on our audit work is that the Debt Recovery Service has **STRONG** controls in place over the administration and management of enforcement cases and receipting and banking of enforcement income.
69. We found that there are sufficient procedures in place for the administration and management of enforcement cases. Our testing confirmed that enforcement action is taken in accordance with agreed procedures and fees and charges are applied in accordance with regulations. However, we identified a potential improvement in how data is transferred and stored between the partner authorities and the service.
70. Our testing established that financial controls, including receipting, banking and reconciliations, are operating effectively and as designed, and the partner authorities are accurately and promptly paid. However, we identified a potential risk in the

# MID KENT AUDIT

process when updating enforcement cases with the payments received due to manual inputting of income received.

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

71. We do not review follow up actions on advisory recommendations and so this report is closed.

## XIII: Business Continuity (November 2017)

72. Our opinion based on our audit work is the Council has **SOUND** controls in place to manage its risks and support its objectives in relation to Business Continuity.
73. At individual service level we found sound arrangements in place for updating and testing individual Business Continuity Plans. We also found within services a comprehensive set of Business Impact Assessments and Risk and Issue Registers. The Council also has a settled Business Continuity Steering Group to help organisation wide management.
74. However, we identified weaknesses at that overall level the Council should address. For example it should update its overall strategy to reflect current arrangements. Also the Council should ensure consolidated Business Continuity risks feature suitably in the corporate risk register.

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

75. The recommendations for this review begin to fall due for action later in 2017. We will follow up on implementation during 2018.

# MID KENT AUDIT

## Recommendation Follow Up Results

76. 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 Strategic 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).
77. 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 2017/18	18	2	7	9
New recommendations agreed in 2017/18	48	3	19	26
<b>Total Recommendations Agreed</b>	<b>66</b>	<b>5</b>	<b>26</b>	<b>35</b>
Fulfilled by 30 September 2017	39	4	13	22
<b>Recommendations carried past 30 September 2017</b>	<b>27</b>	<b>1</b>	<b>13</b>	<b>13</b>
Not Yet Due	20	0	11	9
Delayed Implementation but no extra risk	7	1	2	4
Delayed Implementation with risk exposure	0	0	0	0

78. We describe our priority ratings in Annex 1. In the table below we summarise progress against all reports with recommendations that fell due during 2017/18. The table excludes reports that raised no risk-rated recommendations for follow-up:

# MID KENT AUDIT

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Corporate Projects Review	Dec-2015 (Sound)	3	0	1	0	2	December 2017
Planning Enforcement	Oct-2016 (Weak)	10	0	1	0	9	December 2017
Data Protection	Oct-2016 (Sound)	6	0	1	0	5	March 2018
Licensing	Dec-2016 (Sound)	4	0	0	1	3	December 2017
Elections – Postal Votes	Dec-2016 (Sound)	6	0	1	0	5	December 2017
Members Allowances	Jan-2017 (Sound)	4	0	0	0	4	June 2017
Building Control Partnership	Jan-2017 (Sound)	8	0	1	1	6	December 2017
Section 106 Agreements	Apr-2017 (Sound)	7	0	0	0	7	September 2017
Complaints	Apr-2017 (Sound)	4	0	1	1	2	December 2017
Accounts Payable	Apr-2017 (Strong)	1	0	0	1	0	December 2017
Residents Parking	May-2017 (Sound)	8	0	1	3	4	December 2017
Leisure Centre Contract	Jun-2017 (Weak)	4	0	0	0	4	June 2017



# MID KENT AUDIT

Project	Report Issue Date & Rating	Recs Agreed	Delayed & Risk exposure	Delays but no extra risk	On track but not due	Completed	Full Completion date
Payroll	Jun-2017 (Strong)	1	0	0	0	1	June 2017
ICT Controls and Access	Jun-2017 (Sound)	4	0	0	0	4	September 2017
Housing Benefit	Jul-2017 (Sound)	2	0	0	0	2	September 2017
Safeguarding	Jul-2017 (Strong)	1	0	0	1	0	December 2017
Rent Deposits	Aug-2017 (Weak)	5	0	0	5	0	December 2017
Litter Enforcement	Sept-2017 (Sound)	3	0	0	1	2	December 2017
Business Rates	Oct-2017 (Strong)	1	0	0	1	0	December 2017
Business Continuity	Nov-2017 (Sound)	7	0	0	5	2	March 2018

# MID KENT AUDIT

## Other Audit Activity Results

### Risk Management Update

79. Risk management how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve objectives.
80. The Council set up a new risk management approach in July 2015. Since then we have been providing risk management support to help ensure the success of the approach. This resulted in us presenting the Audit Committee with its first dedicated risk report in [March 2017](#). That report provides details of the **corporate level risks** managed by the Council through the **comprehensive risk register**.
81. The comprehensive risk register is a record of all the operational level risks. Using the register we can understand how many and how grave the risks that we have across the Council.
82. We set out the current risk profile of the Council below including movement across the year.

Inherent Risk Rating	March 2017	November 2017
BLACK	4	1
RED	17	17
AMBER	59	49
GREEN	25	17
BLUE	4	3
Total	109	80

83. The number of risks has reduced through the year. Those risks removed are those the Council has successfully managed to a conclusion or have otherwise fallen from prominence owing to passage of time.

#### *Corporate level risks*

84. By definition these risks are more strategic, inherently hold a greater impact to the Council, and potentially affect multiple services. They are the key risks that link directly to achieving our priorities. The Council continuously oversees these risks and reports to provide assurance on their management and mitigating actions. These risks are often also a product of the external environment beyond the Council's control.

# MID KENT AUDIT

85. This summer we took the opportunity to run an exercise to refresh the corporate risks. The workshop had a large and broad attendance including Heads of Service and members of Strategic Management Team. Its focus was to review the existing corporate risks and identify any new or emerging risks.

## Risk profile

86. The tables below provide a summary of the corporate level risks. The matrix shows how each risk owner has assessed the impact and likelihood (see annex 3 for definitions):

Ref	Risk Heading	Score
a	STC Delivery	12
b	Transport infrastructure	16
c	Local Plan	15
d	Homelessness	16
e	Skills Gap	9
f	Funding Restrictions	12
g	Income Generation	6
h	Emergency Plan	6
i	Recruitment & Retention	4
j	Business Transformation	9
k	External Partners	12
l	Partnerships (Internal)	8
m	Cyber Security Incidents	16

87. The Council will oversee and manage the risks regularly and provide updates to Members as part of the annual risk report in March 2018.

88. Risk management is a continuing enterprise. We will continue providing general support to the Council and focus in particular in the coming months on:

- Producing project risk guidance;
- Creation of a risk web page as part of the shared Mid Kent Audit web page;
- Training and briefing sessions to Officers and Members;

Likelihood	5					
	4					
	3					
	2					
	1					
		1	2	3	4	5
		Impact				

# MID KENT AUDIT

## Counter Fraud Update

89. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

### *Investigations*

90. During 2017/18 we have completed one investigation on a matter referred to us about a council tax support claim made by a member of staff. We investigated to a PACE standard since the nature of the referral could have meant criminal charges might follow.
91. However we decided the matters arose because of misunderstandings and confusion rather than malicious intent. We reported our conclusions to management.

### *Whistleblowing*

92. 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.
93. We have had two matters raised with us for review during 2017/18. This includes the matter in our report to this Committee in June 2017.
94. We have now resolved both matters to the complainants' satisfaction. Although the resolutions have led to review on certain matters of the Council's governance there are no details we need to bring to the Committee's attention.

### *National Fraud Initiative*

95. We continue to coordinate 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 manage the exercise.
96. The Cabinet Office released the 2017 matches in January 2017 as reported to this Committee in June 2017. Most matches (64%) fall to the MKS Revenues & Benefits Compliance team to look into. That team report separately to this Committee.
97. We have now embarked on a review of the remaining matches starting with those identified by the Cabinet Office as 'high risk'. We aim to meet the Government

# MID KENT AUDIT

expectation to review all matches within two years. We will report results of the matches to Members as part of our year-end review.

## *Counter Fraud Policy*

98. We reported to Members in June an expectation that CIPFA would be working with local practitioners during 2017/18 to develop counter fraud standards for local government. Through the Head of Audit Partnership's roles with the IASAB and LAG we understand that development is delayed. We also note the DWP's recent extension of its pilot on leading Council Tax fraud that might further limit fraud roles within local government.
99. Our plan had been to use these new standards to review the Council's counter fraud and associated policies to ensure they conform to current best practice. However, given the delay in developing national standards, we will now go ahead with this policy review early in the new-year. We will draw on current examples of best practice in governance, such as the *CIPFA Counter Fraud Code*.

## **Other Audit and Advice Work**

100. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include work on the project team examining PCI compliance, attendance at Procurement Board, Information Governance Group and as part of the Wider Management Team.
101. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

# MID KENT AUDIT

## Code of Ethics and Standards Compliance

102. On 1 April 2017 the RIASS<sup>1</sup> published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
103. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards for 2017/18. One specific change is the new demand to report to Senior Management and the Board (Audit Committee) on conformance with the Code of Ethics and the Standards.

## Code of Ethics

104. We include the full Code at Annex 2. Although a new document, similar codes were already part of the profession especially for people holding membership of professional institutions. We have included the Code within our Audit Manual and training for some years.
105. We can report to Members we remain in conformance with the Code. For further assurance, the chart below describes some of the working practices and controls we use to encourage and oversee continuing adherence.

### Integrity

- Code of ethics within manual and part of basic training
- Working within ethical codes of profession and authorities

### Objectivity

- Separate independence declarations globally and on specific work
- Auditors mobile between authorities in partnership

### Confidentiality

- Guidance for auditors on minimal retention of personal data in audit files
- Information not of continuing use deleted on completing audit review

### Competency

- Need to consider competence before accepting engagements within Audit Charter
- Dedicated personal training budgets to support continuing professional development

<sup>1</sup> Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

# MID KENT AUDIT

## Public Sector Internal Audit Standards

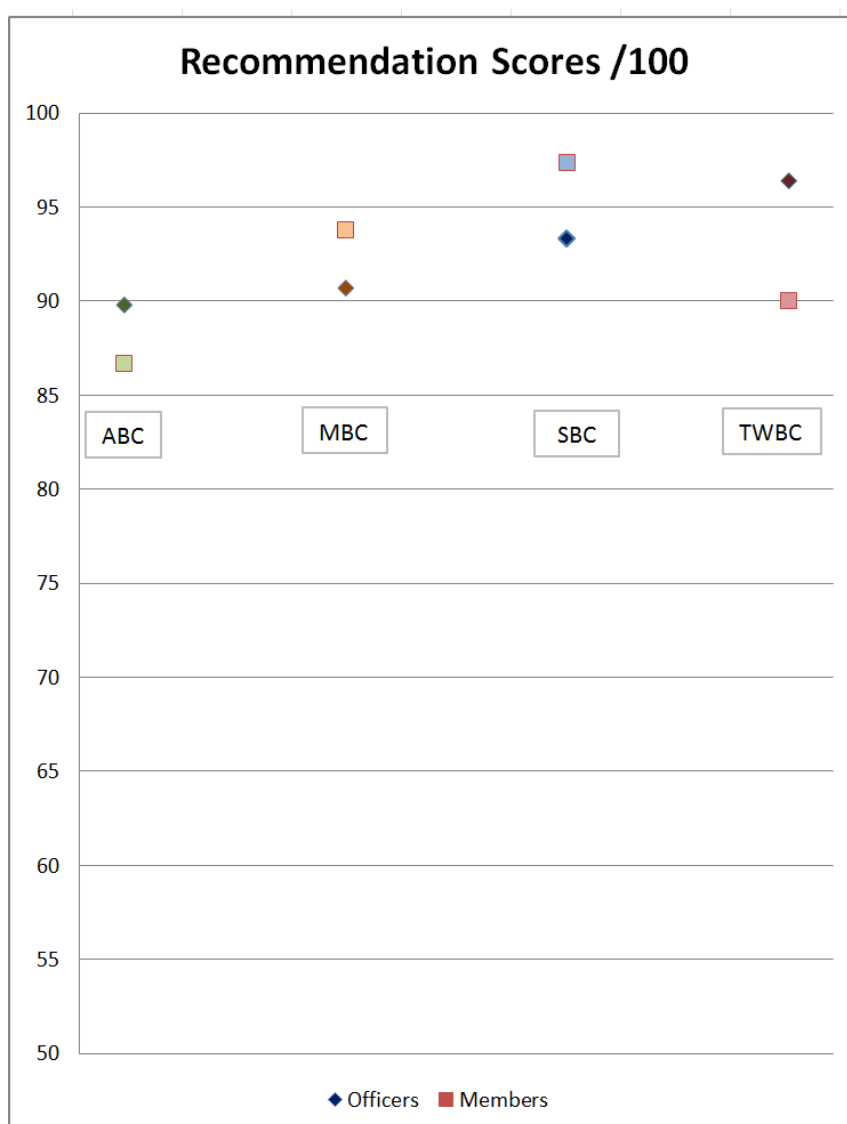
106. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
107. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the 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.
108. In 2017 we undertook a self-assessment against the Standards and confirm to Members we remain in full conformance. We will undertake a new self-assessment in 2018 alongside our annual opinion. However, including considering the changes to Standards published for 2017/18, we are confident we remain in full conformance. Our next external assessment is due before 2020.

## Mid-Term Review

109. The collaboration agreement between the four authorities demands the service undergo a 'mid-term review' before January 2018. The aim of the review is to ensure the authorities continue to draw the benefits they expect from working together and point towards how the partnership can continue to improve.
110. We undertook this review principally as a self-assessment during late summer 2017. However, we also sought a wide range of qualitative and quantitative evidence including a survey sent to more than a hundred members and officers and face-to-face discussions with key individuals.
111. The overall picture of Mid Kent Audit that emerged from the review is of a service working well and delivering above expectations. Several participants also remarked how much those expectations have risen in recent years, focusing on the clarity of our reporting and the increasing value of advice and wider governance work. Authorities place great value in Mid Kent Audit as a template of how partnership working can deliver improved expertise, resilience and learning unavailable from a single-authority enterprise. As a result, all four authorities show a strong wish to continue the arrangement beyond 2019. They also encourage Mid Kent Audit to take on extra roles and work outside the partnership where doing so can continue delivering benefits to the authorities.

# MID KENT AUDIT

112. We found the current collaboration agreement contains various sections related to the detail of service delivery that do not work as intended. However, we noted councils did not consider the variations important and most were unaware of them. Essentially, while satisfaction is high, councils have not inquired deeply into the detail. This gives strong support for the future agreement to focus more narrowly on governance with questions of service delivery for agreement with individual authorities through audit plans and charters.
113. The full report goes into detail on the governance and survey results but we'd like to highlight one area. The final question of the survey invited participants to score on a scale of 0-100 the question of how likely they would be, if asked, to recommend Mid Kent Audit to another authority. The results showed a strong positive response to the audit service remaining consistent across members, officers and authorities.





# MID KENT AUDIT

## Performance Indicators

114. 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 Nick Vickers, Chief Financial Officer, as the Council's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).

115. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Q2 Results
Cost per audit day	Met target	Met target →←	Beat target ↑	Beating target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑	77% ↑
% of chargeable days	75%	63% ↓	74% ↑	75% ↑
Full PSIAS conformance	56/56	56/56 →←	56/56 →←	58/58 ↑
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑	85% ↑
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑	77% ↑
Satisfaction with assurance	100%	100% →←	100% →←	100% →←
Final reports presented within 5 days of closing meeting	89%	92% ↑	94% ↑	100% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←	100% →←
Recommendations fulfilled as agreed	95%	98% ↑	98% ↑	95% →←
Exam success	100%	100% →←	85% ↓	67% ↓
Respondents satisfied with auditor skill	100%	100% →←	100% →←	100% →←

# MID KENT AUDIT

116. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.
117. While we seek comments from a broad range of sources, the driver for the satisfaction numbers is responses to the surveys we circulate with each final report. Response rates to the surveys have varied over the years, but never been high. The response rate at this authority is 50% for 2017/18, the second highest in the partnership. We continue working with audit sponsors, recognising the many draws on their time, developing ways to gain comments on our work.
118. On exam success, we continue to see the influence of the IIA's change to its qualification that has depressed pass rates across the country. Our results remain above the national average and our people continue to gain success at a retake.

## Swale Stars Team of the Year 2017

119. We report with delight that we received "Team of the Year" at the *Swale Stars* awards earlier this year. As a purely internal service with no public facing role we are aware that audit is often, understandably, overlooked for awards so take great pride in this honour. Beyond the performance data and results noted above we believe firmly that an effective audit service is one that creates and nurtures close working with our clients. It is only by that close working that we can fulfil the mission of internal audit to provide effective, insightful and future focused support.



120. Our integrated working means almost the entire team has spent some time at Swale and so contributed to our achievement. However we'd like to praise the individuals who work most closely with the Council; Frankie Smith and Jo Herrington.

## Acknowledgements

121. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
122. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
123. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

# MID KENT AUDIT

## Annex 1: Assurance & Priority level definitions

### Assurance Ratings 2017/18 (Unchanged from 2014/15)

Full Definition	Short Description
<b>Strong</b> – 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.	Service/system is performing well
<b>Sound</b> – 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.	Service/system is operating effectively
<b>Weak</b> – 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.	Service/system requires support to consistently operate effectively
<b>Poor</b> – 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.	Service/system is not operating effectively

# MID KENT AUDIT

## Recommendation Ratings 2017/18 (unchanged from 2014/15)

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

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

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

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

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

# MID KENT AUDIT

## Annex 2: Institute of Internal Audit Code of Ethics

### { CODE of ETHICS... }

#### // PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

#### // RULES OF CONDUCT

##### 1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

##### 2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

##### 3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

##### 4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.



The Institute of Internal Auditors

# MID KENT AUDIT

## Annex 3: Risk Definitions

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following agreed definitions have been used to inform the assessment of risks on the comprehensive risk register.

### RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catastrophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law	Uncontrollable financial loss or overspend over £1.5m	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	punishable by imprisonment or significant fines	Financial loss or overspend greater than £100k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £20k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £20k	Environmental incident with no lasting detrimental effect

### RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history

<sup>i</sup> Photograph of Faversham Creek from “The Coastal Path Blog” at <https://thecoastalpath.net/2012/08/19/28-faversham-to-seasalter/>

**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:

	<b>Chairman: Councillor Nicholas Hampshire</b> <b>Party:</b> Conservative <b>Ward:</b> Borden and Grove Park <b>Phone:</b> 01795 477560 (evening only), 07739 108756 (daytime) <b>Email:</b> nicholashampshire@hotmail.com		<b>Vice- Chairman Councillor Nigel Kay</b> <b>Party:</b> Conservative <b>Ward:</b> St Ann's <b>Phone:</b> 01795 531298/07710 487129 <b>Email:</b> nigelkay@swale.gov.uk
	<b>Councillor Andy Booth</b> <b>Party:</b> Conservative <b>Ward:</b> Minster Cliffs <b>Phone:</b> 07912 464213 <b>Email:</b> andybooth@swale.gov.uk		<b>Councillor Roger Clark</b> <b>Party:</b> Conservative <b>Ward:</b> Milton Regis <b>Phone:</b> 07960 381095 <b>Email:</b> clark.miltonregis@gmail.com
	<b>Councillor Adrian Crowther</b> <b>Party:</b> UKIP <b>Ward:</b> Minster Cliffs <b>Phone:</b> 01795 874418 <b>Email:</b> Adrian.crowther@kent.gov.uk		<b>Councillor Mick Galvin</b> <b>Party:</b> UKIP <b>Ward:</b> Sheerness <b>Phone:</b> 01795 666903 <b>Email:</b> mickgalvin@swale.gov.uk



	<p><b>Councillor Angela Harrison</b>  <b>Party:</b> Labour  <b>Ward:</b> Sheerness  <b>Phone:</b> 01795 665029  <b>Email:</b> angelaharrison@swale.gov.uk</p>		<p><b>Councillor Samuel Koffie-Williams</b>  <b>Party:</b> Conservative  <b>Ward:</b> Murston  <b>Phone:</b> 07484274235  <b>Email:</b> samuelkwilliams@swale.gov.uk</p>
	<p><b>Councillor Peter Marchington</b>  <b>Party:</b> Conservative  <b>Ward:</b> Queenborough and Halfway  <b>Phone:</b> 01795 661960 (evenings only)  <b>Email:</b> 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
21 June 2017	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
13 September 2017	Annual Financial Report 2016/17 and Audit Findings Report	Nick Vickers
	Annual Treasury Management Report 2016/17	Nick Vickers
	Mid Kent Services Fraud and Compliance	Zoe Kent
	Progress Report – Planning Enforcement	Rich Clarke
	Audit Committee Work Programme	Democratic Services
29 November 2017	Treasury Management Half Year Review	Nick Vickers
	Annual Audit Letter	External Audit
	Audit Committee Update	External Audit

	<b>Internal Audit Interim Report</b>	Rich Clarke
	<b>Audit Committee Work Programme</b>	Democratic Services
<i>14 March 2017</i>	<b>Internal Audit Plan 2017/18</b>	Rich Clarke
	<b>Strategic Risk Register and Action Plans</b>	Rich Clarke
	<b>Certification of Claims and Returns</b>	External Audit
	<b>Audit Committee Work Programme</b>	Democratic Services

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