

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 25 March 2015
Time: 7.00 pm
Venue: Committee Room - Swale House

Membership:

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

Quorum = 3

	Pages
1. Apologies for Absence and Confirmation of Substitutes	
2. Minutes	
To approve the Minutes of the Meeting held on 10 December 2014 (Minute Nos. 396 - 404) as a correct record.	
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 Director of Corporate Services as Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.	

Part B Reports for Decision by the Audit Committee

4.	Internal Audit Operational Plan 2015 - 16	1 - 24
5.	Draft Internal Audit Charter	25 - 36
6.	Certification Report 2013 - 14	37 - 54
7.	Audit Plan 2014 - 15	55 - 68
8.	Audit Committee Update 2014 - 15	69 - 80
9.	Audit Committee Work Programme	81 - 84

Issued on Monday, 16 March 2015

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

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

Audit Committee Meeting	
Meeting Date	25 March 2015
Report Title	Internal Audit Operational Plan
Cabinet Member	CLlr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Russell Heppleston – Audit Manager
Key Decision	No
Classification	Open
Forward Plan	N/A
Recommendations	<ol style="list-style-type: none">1. The Audit Committee approves the Internal Audit Operational Plan for 2015/16.2. The Audit Committee approves in principle the longer term plan up to 2018/19 but notes this will be subject to annual review and refresh.

1 Purpose of Report and Executive Summary

1. To report is provided in order to allow the Committee to consider and approve the Internal Audit Operational Plan 2015/16.

2 Background

2. The role of the Audit Committee is required to obtain assurance on the control environment of the organisation; therefore, the Committee needs to have an awareness of the work conducted by Internal Audit, in order to adequately fulfil its duties.
3. The internal control environment comprises the whole network of systems and controls established to manage the Council, to ensure that its objectives are met. It includes financial and other controls, and arrangements for ensuring the Council is achieving value for money from its activities

3 Proposals

- 3.1 The report sets out the one-year operational plan for 2015/16 together with the longer-term plan up to 2018/19. We ask the Committee to review and approve the 2015/16 operational plan in approve in principle the longer-term plan.

4 Alternative Options

- 4.1 The Audit Committee as part of its terms of reference must maintain oversight of the internal audit function and its activities. The plan proposed aims to complete internal audit's responsibilities in an efficient and effective manner.

5 Consultation Undertaken or Proposed

- 5.1 All findings and recommendations identified within reviews are consulted on with the appropriate Head of Service and action plans are agreed with management to implement recommendations. The report itself was shared in draft with the Deputy Chief Executive before presentation to this Committee.

6 Implications

Issue	Implications
Corporate Plan	The role of Internal Audit is to help the Council accomplish its objectives. All audit work considers the adequacy of controls and risks associated with the delivery of the Council's strategic and operational objectives.
Financial, Resource and Property	None identified at this stage.
Legal and Statutory	Internal Audit is a statutory function in accordance with the Accounts & Audit Regulations 2015.
Crime and Disorder	None identified at this stage.
Sustainability	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Risk Management and Health and Safety	The audit plan is produced as a result of risk assessment examining where audit activity is best focussed. The risk of not approving the plan is that the Council will be at greater risk of incurring or failing to detect fraud, error or service failure or weakness. There are no Health and Safety implications identified at this stage.
Equality and Diversity	None identified at this stage.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Internal Audit Operational Plan 2015/16 – 2018/19

8 Background Papers

8.1 There are no background papers to further support this report.

MID KENT AUDIT

**Internal Audit Plan
2015/16 – 2018/19**

**Swale Borough
Council**



Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes¹.
2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015 (the Regulations), which require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS) that replaced the Code of Practice for Internal Audit in Local Government in the UK.
3. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk, as required by both PISAS and Regulation 5. The opinion takes into consideration:
 - a) Controls: Including financial and non-financial controls.
 - b) Governance: Including effectiveness of measures to counter fraud and corruption, and
 - c) Risk Management: Principally, the effectiveness of the Council's risk management framework.
4. This document sets out our internal audit plan for the next four years outlining the work we will undertake to both inform that opinion and provide wider support to the Council in helping to achieve its strategic objectives. As required by PSIAS we have, for the first time, included for the Committee details of the risk assessment that underpins the plan to demonstrate the process of its compilation. We aim by this to give the Committee assurance that our work is appropriately tailored to reflect the risks to and priorities of the Council and sufficiently resourced to deliver an effective and accurate audit opinion.
5. Naturally, in order to effectively respond to the changing environment of local government we will need to keep our plan continually flexible and under review. As the activities of the Council, and the consequent risks to its control, governance and risk management vary, so we will need to consider how our audit plan is best arranged to deliver appropriate assurance. This may include substituting individual projects or changing their scope, timing or duration.
6. Our principal route for this review will be in ongoing consultation with the Council's s.151 Officer, although we will continue to keep the Audit Committee abreast of changes through our interim and annual reporting as well as consult directly with the Chair of this Committee with respect to significant changes to the plan (as set out in the Audit Charter elsewhere on tonight's agenda, if the Committee accept our recommendation to adopt the Charter).

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

Basis of our plan: available resources

7. In previous years our audit plans were centred on delivering a set number of projects per year. While this gave the plans directness and simplicity it limited the ability of the service to respond to changing need; a project is a large block of work to flex and adapt. Moreover, that approach did not recognise the time and contribution of audit management or acknowledge any of the range of additional tasks and support the service provides. The restriction also led to inconsistent definition of what constituted an audit 'project', obscuring the link between plans and the risk profile of the authority. This weakness was noted and commented on within our 2014 External Quality Assessment (EQA) undertaken by the Institute of Internal Auditors (IIA).
8. This plan seeks to add this flexibility by taking advantage of the freedom in the 2014 revised collaboration agreement by moving from a project to days-led approach. In moving to this approach we have allocated to each authority a total number of audit days proportionate to their financial contribution to the service.

Role	Contractual Days	Chargeability target	FTE	Available Days
Head of Audit	219	40%	1.0	87
Audit Manager	219	50%	2.0	218
Senior Auditor	219	75%	3.95	648
Auditor	219	85%	1.5	277
Trainee Auditor			2.0	250
Specialist Support			1.0	120
Totals			11.45	1,600

For further details of the resources available to the Partnership, see appendix E.

Authority	Contribution to overall partnership budget	Audit Days Allocated
Ashford BC	23.0%	370
Maidstone BC	29.5%	470
Swale BC	25.7%	410
Tunbridge Wells BC	21.9%	350
Total	100%	1,600

9. Therefore the total audit allocation for Swale BC in 2015/16 is **410 days**. Based on our risk assessment, we are satisfied that represents a sufficient level of resource to evaluate the effectiveness of the Council's risk management, internal control and governance processes. Our audit plan cannot address all risks across the Council and represents our best deployment of limited audit resources. In approving the plan, the Audit Committee recognises this limitation. We will keep the Committee abreast of any changes in our

assessment of resource requirement as we monitor the risks posed to the Council. In particular, we will revise this resource assessment afresh each year of the four year plan.

Basis of our plan: risk assessment

10. Our assessment that this level of resource is adequate is based upon the risk assessment underlying our plan. This assessment comprises 3 principal steps:

Step 1: Understanding the Audit Universe, Strategic Priorities and Risks

11. Our assessment of the audit universe – essentially all of the areas and topics that are within the potential scope of audit review and contribute to the Council’s pursuit of its strategic priorities – is informed by review of the Council’s structure, ongoing meetings and discussion with officers and Members and review of Council meeting papers.
12. Our aim in drawing together the plan is that, over the course of its four year lifetime, all areas of the Council will have received a proportionate level of audit review. The 2015/16 assessment of the audit universe is shown by the areas displayed in the plan at appendix A and we will update and refresh this assessment each year.
13. Strategic priorities and risks have been determined by the Council and considered by us in drawing together the audit plan. As the Council moves through the process of refreshing and updating its strategies and priorities for 2015/16 onwards, it is important that the audit plan is flexible to respond to the changing needs of the Council. We therefore keep our assessment of risks and priorities under review, to ensure that any changes in direction are considered within our audit plan.
14. The Council’s key risks are included within its **strategic risk register**. At the time of writing, the register details 5 risks scenarios:
 - **Impact of welfare reform and wider economic pressures** (rated as likelihood 5/6, impact 3/4: **Red** risk)
 - **Regeneration and place shaping** (rated as likelihood 5/6, impact 3/4: **Red** risk)
 - **Achieving a balanced budget across the medium financial plan period 2014/15 to 2016/17** (rated as likelihood 4/6, impact 4/4: **Red** risk)
 - **Transforming to meet the financial environment** (rated as likelihood 3/6, impact 3/5: **Amber** risk)
 - **Safeguarding** (rated as likelihood 3/6, impact 4/4: **Red** risk)

Step 2: Evaluating the risks

15. A key finding of the IIA's EQA last year was the need to make our planning more clearly derived from and led by the differing objectives and risks at each authority; a point that was the root finding for 4 of the 6 recommendations needed to achieve full conformance with the PSIAS. We have responded to those recommendations in this plan by conducting a comprehensive risk assessment across the range of Council services, building on our work in identifying the audit universe and the Council's key priorities and risks.
16. In conducting this assessment we considered risk across 6 discrete fields (summarised below, a full detail of our assessment process is at appendix B.

Financial Risk

The risk that failure in the service/area will undermine the Council's financial standing.

Strategic Risk

The risk that failure in the service/area will prevent achievement of a strategic goal or mitigation of a priority risk.

Fraud Risk

The risk that the service will be a victim of fraud or corruption, from within our without.

Change Risk

The risk that the service will be subject to, or seek, change leaving it vulnerable to failure.

Oversight Risk

The risk that failure in the service will not be identified or addressed by agencies other than internal audit.

Exposure Risk

The risk that failure in the service will materially damage the Council's standing, including its ability to deliver services for the local population.

17. One of these risks in particular –Oversight Risk – bears further explanation. One way of considering the control environment at any organisation is the **three lines of defence** model. In this analogy, an organisation has three levels of control which might serve to prevent or detect failure or error.

First Line of Defence: Direct controls within the service itself operating day-to-day to maintain internal control and support risk management.

Second Line of Defence: Controls operating at a corporate level to provide oversight to the process, setting and monitoring a framework for internal control and risk management to operate within.

Third Line of Defence: An independent perspective, still under corporate control, to challenge and comment upon the process and its implementation. Usually, this is the level at which Internal Audit operates.

18. When considering oversight risk, we reviewed the extent to which any service is subject to this model. Also, beyond those internal measures, we also sought to establish and consider what level of external regulation and oversight operates. For instance, although the Health and Safety Executive is not part of the Council's own control processes (as the Council cannot control or direct its actions), its reviews and findings provide useful commentary and perspective on the effectiveness of controls. The Council's external auditors – Grant Thornton – provide a similar perspective across the Council's finances and value for money operations.
19. As noted in appendix B, where a given service does not have a clear position within the three lines of defence or is not subject to detailed oversight from any external agency, we scored this risk factor more highly.
20. We considered each of those inherent risk factors alongside a final factor:

Audit Knowledge

Whether there are findings from previous audits (or an absence of positive audit findings in recent years) which suggest an increased risk of service failure.

21. The detailed audit plan at appendix A includes details of recent audit coverage in each area.
22. Our risk assessment is necessarily limited to matters emerging from the processes listed above. We will review and update this assessment and our plan at least annually, as well as keeping abreast of developments at the Council and seeking to ensure our plan remains relevant and valuable in-between those annual reviews. In consultation with management, and with the approval of the Audit Committee, we will seek to ensure that audit resources remain appropriately focused.

Step 3: Drawing up the plan and individual projects

23. The higher risk a service or area, by this evaluation the greater level of audit attention and the earlier in the lifespan of our plan that attention comes. Appendix A shows how that assessment has formed our audit plans for 2015/16 to 2018/19.
24. Once we have selected an area for review it will be subject to our usual process of issuing draft and final briefs ahead of the work to ensure our attention is appropriately tailored.
25. The risk-based approach taken to forming the plan as a whole will be integrated within our approach to individual projects. Each will now include, in addition to any specific objectives agreed by the service, the following three objectives as standard:
 - Has the service/area set out its objects and risks and are these in line with the Council's overall aims and risk appetite?
 - Are there adequately designed controls to achieve those objectives and/or mitigate those risks?
 - Are those controls operating effectively?
26. We will conduct each review in line with our standard audit methodology which is aligned to the Public Sector Internal Audit Standards. The roles and responsibilities for successful delivery of audit projects are set out also in our Audit Charter. An updated Charter for 2015/16 is also included on this agenda and will be provided to every audit sponsor.
27. Each of these audit reviews will culminate in an assurance rated report, giving our view on whether the particular area is operating effectively. We will keep these rating levels consistent with our revised approach adopted first in 2014/15, with details of the assurance levels included as a reminder to Members in this report at appendix C.
28. We will also, where appropriate, make recommendations for improvement. These recommendations are graded as set out in appendix C and followed up by our audit team when due for implementation. Recommendations that we find have not been implemented where there is ongoing risk to the Council are reported in the first instance to the Council's Management Team. Also, Senior Managers responsible for services that consistently fail to address audit recommendations may be invited to provide further explanation to Members at the Audit Committee.
29. The plan also recognises the non-project work we deliver, using our experience and expertise to assist the Council in pursuit of its strategic priorities. We undertake this work in line with the arrangements set out in the Charter, in particular with those safeguards aimed at preserving our independence and objectivity.
30. Typically the non-project work will not result in an assurance graded output, but rather an alternative format relevant to the engagement and agreed with the work's sponsor. In any event, we will inform the Audit Committee of the outcomes of non-project work through our interim and year end reports.

Monitoring delivery

31. We undertake our audit work against our standard audit approach, which has been assessed in our EQA as consistent with the PSIAS. In addition we adhere to the professional standards, roles and responsibilities as set out in the Charter.
32. As part of this approach we are careful to ensure the quality and consistency of our work. With respect to individual audit projects, each undergoes internal review from management focussing on each stage from compilation of the original brief, through completion of fieldwork and ultimately our reporting.
33. We undertake broader quality assurance of our work as required by the PSIAS. These require an external assessment at least every five years and annual self-assessments to ensure maintenance of standards. Mid Kent Audit underwent an EQA in early 2014, becoming the first local authority audit service in the country to seek such a review from our professional institute, the IIA. This concluded we were fully conforming with 50/56 PSIAS and partially conforming to the remaining 6. We are currently in discussion with the IIA about their completing a follow up review in early April 2015 to examine our progress on implementing the recommendations and hope to report the outcome of that review to Members as part of our 2014/15 annual report.
34. In addition our annual reports will include a full self-assessment against the PSIAS. In the event of this review identifying matters to address we will set out a plan for Members for our response.
35. We are also responsible to Members via the Audit Committee. We will provide interim and annual reports on progress against our plans, as well as attend each Committee meeting to respond to queries from Members. The Head of Audit Partnership is also the lead contact for Members for any matters arising, queries about the service or areas of concern (including Whistleblowing, under the Council's procedures) and can be contacted at any time.
36. Our service is also monitored each quarter by an Audit Shared Service Board; Mark Radford is Swale's representative. The Board receives performance and financial monitoring reports on the progress of the service. The set of performance indicators against which we report are included at appendix D, and we also report outturn on these indicators to the Audit Committee twice a year.
37. We are also dedicated to continuing to develop and enhance the professional expertise and experience of our audit team. For 2015/16 this includes re-starting the previously dormant 'Trainee Auditor' grade, taking on skilled individuals dedicated to pursuing a career in local government audit and supporting them through a professional qualification. We include more details about the audit team and the work we will be undertaking in 2015/16 to support and enhance their development within appendix E

Appendix A: Swale Borough Council: 4 Year Audit Plan (Draft)

Core Finance & Corporate Governance Reviews

Service	Audit Project	Partnership	2015/16	2016/17	2017/18	2018/19
Core Financial Systems			80 days 6 reviews	65 days 6 reviews	60 days 6 reviews	47 days 5 reviews
Finance	Feeder Systems		15		10	
Finance	Payments & Receipts		15	10	10	10
Finance	Budget Management		15		10	
Comm & Cust Contact	Procurement		15		10	
Finance	General Ledger			15		10
Finance	Bank/Treasury			10		10
Human Resources	Payroll	MBC/SBC	10	10	10	7
Revenues & Benefits	Business Rates	MBC/TWBC	10		10	
Revenues & Benefits	Housing Benefits	MBC/TWBC		10		
Revenues & Benefits	Council Tax	MBC/TWBC		10		10
Corporate Governance			60 days 5 reviews	46 days 6 reviews	50 days 6 reviews	51 days 6 reviews
Corporate Centre	Register of Interests		15		10	
Corporate Centre	Data Protection		15			10
Corporate Centre	Corporate Governance		5	5	5	5
Corporate Centre	Corporate Projects Review		10	10	10	10
Corporate Centre	Performance Management		15			
Corporate Centre	Business Continuity	ABC/SBC		5	5	
Corporate Centre	Members' Allowances			10		10
Corporate Centre	Safeguarding			10		10
Corporate Centre	Freedom of Information				10	
Corporate Centre	Risk Management ²				10	
ICT	ICT Controls & Access	MBC/SBC/TWBC		6		6

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² This is our review of the Council's risk management process, which will be assurance rated work. It is distinct from our work supporting day-to-day risk management (as noted elsewhere in this plan).

Service Reviews

Service	Audit Project	Partnership	2015/16	2016/17	2017/18	2018/19
Service Reviews			161 days 14 reviews	184 days 15 reviews	179 days 17 reviews	117 days 10 reviews
Communities	Communications		15			
Communities	CCTV			15		
Communities	Community Safety Grants				15	
Communities	Faversham Pools					10
Communities	Economic Development Grants					15
Customer Services	Customer Services/CRM		15			
Customer Services	Complaints			10		
Democratic Services	Elections and Registration			15		
Environment	Environmental Protection Wardens			15		
Environment	Abandoned Vehicles/Flytipping				15	
Environmental Health	Air Quality/Pollution	MBC/SBC/TWBC			5	
Environmental Health	Food Safety	MBC/SBC/TWBC				5
Finance	Insurance Management				10	
Finance	VAT Management				10	
Housing	Housing Options: Homeless Prevent			15		
Housing	Temporary Accommodation				10	
Housing	Housing Options: Allocation					15
Housing	Private Sector Housing / Staying Put		15			
Housing	Disabled Facilities Grants					15
Human Resources	Learning & Development	MBC/SBC	7			
Human Resources	HR Policy Compliance	MBC/SBC		7		
Human Resources	Recruitment	MBC/SBC			7	
ICT	Networks	MBC/SBC/TWBC	5			
ICT	IT Business & Application Support	MBC/SBC/TWBC	5			
ICT	ICT Procurement	MBC/SBC/TWBC		5		
ICT	Technical Support	MBC/SBC/TWBC			5	
ICT	Information Security	MBC/SBC/TWBC				5
Legal	Legal Services	MBC/SBC/TWBC			5	
Leisure	Cemeteries		15			

Service	Audit Project	Partnership	2015/16	2016/17	2017/18	2018/19
Service Reviews			161 days 14 reviews	184 days 15 reviews	179 days 17 reviews	117 days 10 reviews
Leisure	Leisure Centre Contract			15		
Leisure	Parks & Open Spaces					15
Leisure	Children's Play Areas					15
Licensing	Licensing			15		
Parking	Parking Enforcement	MBC/SBC	7			7
Parking	Residents' Parking	MBC/SBC		7		
Parking	Parking Income	MBC/SBC			7	
Planning	Section 106 Payments		15			
Planning	Planning Support	MBC/SBC/TWBC	5			
Planning	Development Control Enforcement			15		
Planning	Building Control Partnership			15		
Planning	Land Charges	MBC/SBC/TWBC		5		
Planning	Planning Code of Conduct				15	
Planning	Planning Income	MBC/SBC/TWBC			5	
Policy & Performance	Equalities				15	
Procurement	Contract Management				15	
Property	Commercial Property		15			
Property	Property Income			15		
Property	Asset Management				15	
Property	Facilities Management					15
Revenues & Benefits	Discretionary Payments		15			
Waste Collection	Grounds Maintenance		15			
Waste Collection	Waste Collection Income		12			
Waste Collection	Commercial Waste			15		
Waste Collection	Waste Collection Contract	ABC/MBC/SBC			10	
Waste Collection	Recycling				15	

Audit projects noting more than one client (e.g. **MBC/SBC/TWBC**) are reviews of services delivered in partnership. In such instances our work is co-funded between the partners' audit plans and the audit output will be made available to all on the same basis. Precise timings of work within a given year will be subject to negotiation with individual audit sponsors.

Other Work

Service	Audit Project	Partnership	2015/16	2016/17	2017/18	2018/19
Risk Management			20 days	20 days	20 days	20 days
Corporate Centre	Supporting Risk Management Process ³		20	20	20	20
Corporate Centre	Supporting Risk Management Training		5	5	5	5
Counter Fraud			15 days	15 days	15 days	15 days
Corporate Centre	NFI Co-ordination		5	5	5	5
Corporate Centre	Proactive work		4	4	4	4
Corporate Centre	Initial investigations on referral		3	3	3	3
Corporate Centre	Kent Matches Co-ordination		3	3	3	3
Audit Follow Ups			40 days	40 days	40 days	40 days
Various	Quarterly follow up exercise		40	40	40	40
Consultancy and other work			34 days	40 days	41 days	120 days
Corporate Centre	Supporting & attending Audit Committee		6	6	6	6
Economic Development	Repair & Renew Grant Review		5			
Corporate Centre	Procurement Support		4	4	4	4
TBC	Unalloc contingency/consultancy time		19	30	31	110

³ This is our work supporting the day-to-day risk management process, such as receiving action plans and establishing the effectiveness and accuracy of mitigating actions declared. To maintain independence, these two areas of work will be undertaken by separate teams.

Overall Summary

Work Type	2015/16	2016/17	2017/18	2018/19
Audit Work (leading to assurance rating)	301 days 25 reviews	295 days 27 reviews	289 days 29 reviews	225 days 21 reviews
Core Financial Systems	80	65	60	47
Corporate Governance	60	46	50	61
Service Reviews	161	184	179	117
Other Work (unrated reporting)	109 days	115 days	121 days	185 days
Risk Management	20	20	20	20
Counter Fraud	15	15	15	15
Audit Follow Up	40	40	40	40
Consultancy/Contingency	34	40	46	110
Total Audit Resources Available	410 days	410 days	410 days	410 days

Appendix B: Risk Assessment Criteria

Risk Type	Financial Risk	Strategic Risk	Fraud Risk	Change Risk	Oversight Risk	Exposure Risk	Audit knowledge
Full Risk Description	<i>Failure will undermine the Council's financial position</i>	<i>Failure will prevent strategic goal or mitigation of strategic risk</i>	<i>Victim to fraud or corruption (internal or external)</i>	<i>Subject to change leaving it vulnerable to failure</i>	<i>Failure not be identified or addressed by agencies other than internal audit</i>	<i>Failure will materially damage the Council's standing</i>	<i>Findings from previous audits which increase the risk of service failure</i>
Indications of highest risk (4)	Fundamental levels of income or expenditure at stake (£5m+)	Specific service goals integral to overall Council achievement	High volume of transactions with systemic risk of loss	Subject to major fundamental forced change.	Not subject to significant external scrutiny.	Significant interactions, high level of public interest.	Recent history of adverse opinions
Indications of raised risk (3)	Significant levels of income or expenditure at stake (£1m+)	Service supports Council goal but together with other services	Moderate transaction volume with some identified weaknesses.	Service has decided to undergo major fundamental change.	Professional standards exist but no clear external review mechanisms.	Wide range of public interactions but limited public interest.	Mixed recent history, weak responses/no relevant history
Indications of moderate risk (2)	Material levels of income or expenditure at stake (£0.5m+)	Service plays minor direct contribution together with other services	Low transaction volume, few identified weaknesses	Significant change expected in operations.	Review body exists, but remote or risk based oversight only	Limited or minor public interest or interactions.	Good recent record but weak responses
Indications of lower risk (1)	Non material levels of income or expenditure at stake (<£0.5m)	No direct link to strategic objectives, but overall supporting role	No significant fraud exposure	No significant change anticipated.	Subject to regular or continuing external review and scrutiny.	Mainly back office with few public interactions.	Good recent record with prompt response

Appendix C: Assurance & Recommendation Ratings

Assurance Ratings 2015/16 (unchanged from 2014/15)

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

Recommendation Ratings 2015/16 (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.

Appendix D: Performance Indicators

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

Appendix E: Mid Kent Audit Team

Management

Rich Clarke CPFA (Head of Audit Partnership): Rich became head of the audit partnership on 1 April 2014, succeeding Brian Parsons. He joined the partnership from KPMG, where he had a range of internal and external audit clients across the public sector including LB Islington, Woking BC, East Kent Hospitals University NHS Trust, the Foreign and Commonwealth Office and the Civil Aviation Authority. Previous to joining KPMG, Rich worked for the Audit Commission for 12 years, where he achieved CIPFA qualification and gained broad experience in local government and NHS audit as well as leading national training on technical accounting, data quality and audit efficiency and project management. In 2015/16 Rich will be begin studying again aiming to achieve CIPFA Accredited Counter Fraud Specialist status.

Ian Cumberworth MAAT (Audit Manager: Ashford & Tunbridge Wells): Ian became the Audit Manager for Ashford and Tunbridge Wells in 2010 when the original partnership was extended having previously been the Audit Manager at Tunbridge Wells. He has experience of working in the private sector and a number of public sector authorities and has gained a broad knowledge and experience within Local Government. He has experience in supporting and leading on corporate projects which has included areas such as Best Value, VFM studies, Procurement & Contracting initiatives and various inspection regimes.

Russell Heppleston CMIIA (Audit Manager: Maidstone & Swale): Russell started working for the Maidstone / Ashford partnership in November 2005, and continued his role as Auditor for the Mid Kent Audit Service when it was established in 2010. He progressed through professional qualifications with the Institute of Internal Auditors (IIA) to achieve both Practitioner and Chartered member status. As an Auditor Russell examined the majority of council services, and had particular interests in project management and governance. In September 2013 Russell was appointed as the Audit Manager for Maidstone and Swale, and is the client manager at both sites and is responsible for delivering the audit plan. In 2015/16 Russell will be studying to achieve accreditation with the Institute of Risk Management.

Auditors & Senior Auditors

Alison Blake ACCA (Senior Auditor): Alison joined the internal audit partnership in 2012 and has worked on a variety of audits since starting. Prior to this Alison worked for South Coast Audit for 7 years where she undertook internal audit work across a range of NHS clients in East Kent. While at South Coast Audit she achieved ACCA qualification. During Alison's career she has completed a wide range of audit work including finance, information governance and risk management, system reviews and reviews of compliance with legislation with the aim of working with the client to help them achieve their objectives and the objectives of the organisation as a whole. Alison is currently on maternity leave but will be re-joining the team in January 2016.

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

Frankie Smith PIIA (Senior Auditor): Frankie Smith started her career in Internal Audit at Kent County Council in 2001 as a Trainee Auditor. In December 2001 she was appointed to the role of Auditor at Maidstone Borough Council. In the last 13 years she has completed audits at Ashford, Maidstone, Swale and Tunbridge Wells and is currently the Senior Auditor at Swale Borough Council. Frankie completed the CIPFA Diploma in Public Audit in 2003, the IIA Diploma in March 2013 and is now studying towards the IIA Advanced Diploma with a view to becoming a tutor for the IIA qualifications.

Claire Walker (Senior Auditor): Claire joined the audit partnership in September 2010, and has wide experience in a variety of sectors and bodies; Local and Central Government, Arts, Broadcasting, Financial Services, NGOs & Not For Profit Sector (domestic & foreign), also Lottery Fund distribution QUANGOS (New Opportunities Fund, Big Lottery Fund, Millennium, Commission, Olympic Delivery Agency, Heritage Lottery Fund, and Sport England) and the associated grant making programmes (in house and outsourced grant administered programmes). Claire delivered some training & mentoring projects for the FCO, DFID and the World Bank in addition to work on European Social Fund projects. Within Local Government Claire has undertaken a wide range of audits with a focus on legal compliance, contracts and governance arrangements. Other audit experience covers outsourcing functions, due diligence, and fraud investigations.

Jen Warrillow PIIA (Auditor): Jen joined Mid Kent Audit in September 2013 from Kent County Council where she trained as an Internal Auditor. She recently completed study for Practitioner of the Institute of Internal Auditors status and during 2015 will study to become a Chartered Member of the Institute. At KCC Jen undertook a wide range of audits including financial, governance and grant funding internally for the Council and externally for Parish Councils. Previous to joining KCC, Jen worked as an investigator for Swale BC and then Tonbridge & Malling BC. Jen will be providing maternity cover for Alison Blake in the Senior Auditor role until July 2015.

Paul Goodwin AAT (Auditor): Paul has been employed by Tunbridge Wells Borough Council for over 26 years of which nearly all has been in Internal Audit. Paul is a qualified Accounting Technician.

Jo Herrington PIIA (Auditor): Jo joined the audit partnership on 30 September 2013. She joined the partnership from Gravesham BC, where she worked for nearly nine years. She gained experience of working in the Finance department and the Revenues department before settling in the Internal Audit team in September 2009, who operated a shared management arrangement with Tonbridge & Malling BC. As part of the Internal Audit team she gained broad experience conducting financial and operational audit reviews, as well as being involved in working groups across the authority. Jo recently achieved the IIA Diploma, and will be providing maternity cover for Alison Blake in the Senior Auditor role between July and December 2015.

Trainee Auditors & Others

Michael Pugh (Trainee Auditor): Michael joined the audit team in March 2015 as a trainee auditor. He joins us from Baker Tilly where he worked as a risk analyst within their Technology Services internal audit division at clients across the private and public sectors. Michael will be embarking on a professional qualification supported by the service during 2015/16.

Ben Davis (Trainee Auditor): Ben joined the audit team in March 2015 as a trainee auditor. Ben holds a degree in Modern History from UEA and have previous experience in finance teams in the private and voluntary sectors. Ben will also be embarking on a professional qualification supported by the service during 2015/16.

We also have facility within the audit service to seek and deploy additional specialist resource depending on the needs of the service and of our local authority partners. In 2014/15 we used this facility to support delivery of specific audit projects including a significant counter fraud investigation and a major post implementation review of a shared service project.

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Audit Committee Meeting	
Meeting Date	25 March 2015
Report Title	Swale Internal Audit Charter
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Mark Radford – Director of Corporate Services
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Russell Heppleston – Audit Manager
Key Decision	No
Classification	Open
Forward Plan	N/A
Recommendations	1. The Audit Committee approves the Internal Audit Charter 2015/16.

1 Purpose of Report and Executive Summary

1. To report is provided in order to allow the Committee to consider and approve the revised Internal Audit Charter for 2015/16.

2 Background

2. An Audit Charter is a requirement of Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the purpose, authority and responsibility of the service. A partial extract, giving an introduction to the position of the Charter within the Standards is below:

1000 Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Definition of Internal Auditing*, the *Code of Ethics* and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

- 2.1 Our External Quality Review (EQA) from the Institute of Internal Auditors (IIA) last year included a number of comments on the Audit Charter. Specifically, and in order to achieve full compliance, the EQA recommended a range of improvements and clarifications to better set out the Audit Service's role with respect to consultancy, counter fraud and risk management.

3 Proposals

- 3.1 The results of the EQA did not specifically recommend the development of a separate charter for each partner, but it is generally accepted within the industry as good practice. The principal benefit here is that separate charters allows for individual tailoring of the service and its scope to meet client needs. The attached Charter, therefore, reflects how our service operates at Swale; separate Charters will be presented to other Audit Committees (or equivalent) within the audit partnership.
- 3.2 One notable feature is that the revised Charter includes a mechanism for avoiding conflicts of interest in our activities. Reflective of the role of the Audit Committee

in providing oversight, the Charter proposes that major additional work requests are subject to consultation between the Head of Audit, Senior Management and the Chair of the Audit Committee prior to approval, and then reported to the next available Committee meeting in full. This type of approach is common within the industry and, for the sake of illustration, would only have been invoked once during 2014/15, for the Planning Shared Service review.

3.3 We propose that the Audit Committee approve the Internal Audit Charter for 2015/16.

4 Alternative Options

4.1 The Audit Committee as part of its terms of reference must maintain oversight of the internal audit function and its activities. The Charter proposed sets out the basis on which the function operates. We recommend no alternative course of action.

5 Consultation Undertaken or Proposed

5.1 The Charter was shared in draft with the Corporate Services Director and reflects his comments.

6 Implications

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

7 Appendices

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

- Appendix I: Swale Internal Audit Charter

8 Background Papers

8.1 An Internal Audit Charter is a requirement of the Public Sector Internal Audit Standards. To view the Standards in full: [Public Sector Internal Audit Standards](#)

The current Internal Audit Charter was approved by Audit Committee in September 2013. A full version of the report to Committee can be found on [agenda item 7](#) of the Committee papers.

MID KENT AUDIT

**Internal Audit
Charter**

**Swale Borough
Council**



Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Swale Borough Council (the 'Council'). The Charter establishes internal audit's position within the authority, including the nature of the Head of Audit Partnership's functional reporting relationships. The Charter also authorises access to records, personnel and physical properties relevant to the performance of engagement and defines the scope of internal audit activities.
2. Final approval of the Charter resides with the Audit Committee, but it will be reviewed each year by the Head of Audit Partnership in consultation with the Audit Partnership Board.

Mission

3. The Audit Partnership acknowledges and aspires to achieving the mission of Internal Auditing provided by the Institute of Internal Auditors (IIA):

To enhance and protect organisational value by providing stakeholders with risk based, objective and reliable assurance, advice and insight.

Scope of work

4. The scope of the Audit Partnership's work includes, in the first instance, tasks in support of the annual Head of Internal Audit Opinion. This work covers three areas:

Internal Control

5. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.

Corporate Governance

6. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

Risk Management

7. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
8. In addition to those three core areas the Audit Partnership may, subject to specific arrangements, undertake engagements in the areas of counter fraud or advisory as discussed elsewhere in this Charter.

Authority of internal audit

9. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations 2011 (the 'Regulations') which require the Council to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices.
10. Deriving authority from those Regulations and those authorising this Charter, the Audit Partnership has free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its scope.
11. To enable full discharge of its duties, the Head of Audit Partnership and his team are authorised to:
 - Have a right of direct access to the Chair of the Audit Committee;
 - Have unrestricted access to all functions, records, property and personnel;
 - Obtain assistance where necessary from Council officers and contractors involved in subject of audit engagements.
12. The Head of Audit Partnership and his team are not authorised to perform any operational duties for the Council, initiate or approve accounting transactions (except where directly related to the administration of the service) and direct the activities of any Council employee (except insofar as they have been appropriately assigned to assist engagements).

Responsibility

13. The Head of Audit Partnership and his team have responsibility to undertake their work at all times in accordance with the Public Sector Internal Audit Standards (the 'Standards') and the IIA's Code of Ethics (the 'Code'). In addition, those members of the team who have membership of professional bodies will comply with the relevant requirements of that organisation. Undertaking work in accordance with the Standards will include:
 - Developing a flexible risk-based audit strategy and annual plan in consultation with senior management and presented annually to the Audit Committee for review and approval. The Audit Committee will also be invited to review and approve significant changes to the plan;
 - Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including escalation of items of significant risk;
 - Issuing period reports to senior management and the Audit Committee summarising results of internal audit work;
 - Continuing liaison with the Council's external auditors and other assurance providers to seek optimal assurance coverage;
 - Communicating regularly with relevant stakeholders on progress of the internal audit service, its work and findings; and

- Keeping the Shared Services Board (and so, the Corporate Services Director) informed on the performance of the internal audit service.

Reporting lines

14. The Head of Audit Partnership has responsibility for day to day management of the internal audit team. The Head of Audit Partnership reports administratively to the Director of Mid Kent Services and, with respect to activities undertaken at the Council, reports functionally to the Corporate Services Director as the Council's representative on the Audit Partnership Board. Organisationally, the Head of Audit Partnership reports to the Audit Committee. The Head of Audit Partnership also has a direct right of access to the Chief Executive as and when required.
15. Should the Head of Audit Partnership not be satisfied with the response of senior management to or engagement with a given audit review this will be highlighted to the relevant Director in the first instance and escalated to the Audit Committee if the matter remains unresolved.

Independence and objectivity

16. The internal audit service is and will remain free from interference in determining the scope and nature of its work and communicating its results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least annually, in summary reports to the Audit Committee.

Accountability

17. The Head of Audit Partnership, in the discharge of his duties, will be accountable to the Audit Committee and the Corporate Services Director (through the Audit Partnership Board). This will include the provision of an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

18. To be effective, the internal audit service requires full co-operation of senior management. In approval of this Charter the Audit Committee and the Corporate Services Director direct management to co-operate with internal audit in the delivery of the service. This includes, but is not limited to, agreeing suitable briefs for audit engagements, acting as audit sponsors, providing access to appropriate records, personnel and systems, responding to draft reports and implementing management actions in line with agreed timescales.
19. Senior management also undertakes to keep the internal audit service abreast of significant proposed changes in processes, systems or organisation, newly identified significant risks and all suspected or detected fraud, corruption or impropriety.

20. Senior management will also ensure that the internal audit service has access to sufficient resources to fulfil the audit plan as directed by the Audit Committee. Responsibility for arranging and deploying resources in fulfilment of the plan rests with the Head of Audit Partnership.

Non Audit Work

Consultancy

21. The Standards allow that Internal Audit resource may sometimes be more usefully focussed towards providing advice rather than assurance. Where appropriate, the service may act in a consultancy capacity by giving guidance, providing that:

- The objectives of the engagement address governance, risk management or internal control,
- The request has been approved by a member of SMT,
- The service has the right skills, experience and available resource, and
- Internal audit's involvement will not constitute a conflict of interest, compromise the appearance or fact of its independence and will not involve assuming a management role in providing advice.

22. The Head of Audit Partnership is responsible for ensuring all requests are reviewed in accordance with the above criteria and for making the final decision. The specific role of Internal Audit in any particular engagement will be agreed with the sponsor, documented within the assignment plan and reported to the Audit Committee at the next opportunity.

23. With respect to significant requests, defined as those which require the purchase of additional resources or amendment to the agreed audit plan, the Head of Audit Partnership will consult the Chair of the Audit Committee before accepting the engagement.

Risk Management

24. Internal Audit's role in Risk Management will be guided by the Institute of Internal Auditors position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* and documented in the Council's *Risk Management Strategy*. Internal Audit will not undertake roles defined as inappropriate by that guidance. Where Internal Audit undertake roles defined as 'legitimate internal audit roles with safeguards' the nature and extent of those safeguards will be agreed with the Corporate Services Director and reported to the Audit Committee.

Counter Fraud

25. Internal Audit's role on Counter Fraud will be in accordance with the Council's *Counter Fraud Strategy* and with the resources approved by the Audit Committee in the Annual Audit Plan.
26. Internal Audit may assist or lead, as needed, in the investigation of significant suspected fraudulent activities within the Council and notify Management and the Audit Committee of the results. Where a significant investigation requires purchase of additional resource or amendment to the agreed audit plan the Head of Audit Partnership will consult the Chair of the Audit Committee after discussion with the Corporate Services Director.

Major Projects

27. Internal Audit will be informed of major projects and their progress through continuing discussion with Management. Internal Audit response to major projects will be proportionate to the risk in terms of the inclusion of specific audit work within the annual audit plan. Where a project team seeks advice or further support from Internal Audit, we will treat that request as one for consultancy support as described from paragraph 21.

Relationships

28. The Head of Audit Partnership and the audit team are involved in a wide range of relationships whose quality are important in supporting the effective delivery of the audit function.

Relationships with management

29. The internal audit service will maintain effective relationships with managers at the Council. This will include consultation in the audit planning process both at an overall plan level and with respect to the scope of individual audit projects as well as regular meetings with key stakeholders. Timing of audit work will also be agreed in conjunction with Management.

Relationships with external auditors and regulators

30. The internal audit service and Grant Thornton LLP have an established and sound working relationship described in more detail within the *Internal/External Audit Protocol* presented to the Audit Committee in March 2014. We will continue to rely upon and draw from each other's work subject to the limits and duties determined by our respective responsibilities and professional standards. This enables us to evaluate and review work and only re-perform where necessary. We will meet regularly and share our plans and reports.

31. The internal audit service will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where appropriate the Head of Audit Partnership or appropriately delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

Relationships with Members

32. The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Audit Committee. However, we place great store in gaining and maintaining an effective working relationship with Members and so will foster good contacts throughout the internal audit service as appropriate.
33. The Head of Audit Partnership will have the opportunity to meet separately (that is, without other officers in attendance) with the Chair of the Audit Committee and other Members if desired.

Standards of internal audit practice

34. This Charter recognises the mandatory nature of the IIA definition of Internal Auditing and Code of Ethics and the Public Sector Internal Audit Standards. The Internal Audit team comply with these standards.

Quality assurance

35. The Standards require that audit be subject to a quality assurance and improvement programme. For Mid Kent Audit, that programme incorporates both internal and external elements.

Internal assurance

36. All of our audit engagements are subject to review by management and the Head of Audit Partnership prior to finalisation. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the area under review and that conclusions are supported by detailed work undertaken. We will vary the range and scope of reviewers to help maintain consistency and support learning within the service.

External assurance

37. An external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organisation. The service's most recent such assessment was completed by the Institute of Internal Auditors in 2014, with results reported to the Audit Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss options with the Corporate Services Director and the Audit Committee as the need arises.

This Charter is authorised within Swale Borough Council:

Corporate Services Director: Mark Radford

Audit Committee Chair: Councillor Patricia Sandle

With the agreement of:

Head of Audit Partnership: Rich Clarke

Mid Kent Services Director: Paul Taylor

Signed... Dated...

Next Review required...

Certification report 2013/14 for Swale Borough Council

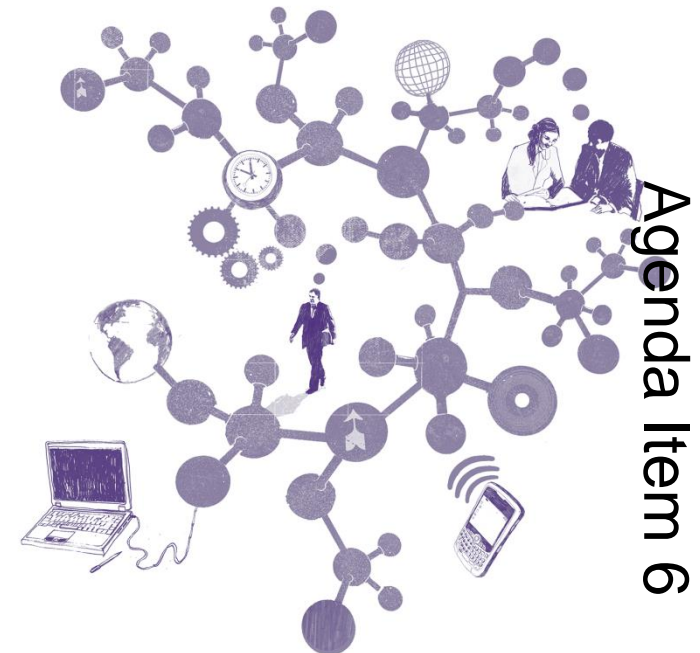
Year ended 31 March 2014

February 2015

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Section 1: Summary of findings

01. Summary of findings

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Summary of findings

Introduction

We are required to certify certain claims and returns submitted by Swale Borough Council ('the Council'). Auditor certification is an important part of the process to confirm the Council's entitlement to funding.

This report summarises the outcomes from our certification work for 2013/14.

Approach and context to certification

Certification arrangements are prescribed by the Audit Commission, which agrees the scope of the work with the relevant government department or agency and issues auditors with a Certification Instruction (CI) for each claim or return.

The Audit Commission also requires auditors to report the outcomes of certification work to those charged with governance.

In 2013/14 only one claim required auditor certification at Swale BC. This was the Council's claim for Housing Benefit Subsidy, based on total expenditure (benefit granted) of £55.8m.

Key messages

The volume of work required to complete certification of the housing benefit subsidy claim was greater for 2013/14 than in previous years. This was due to the level of testing required to follow up both errors identified from our previous year work and errors identified from our initial testing on the 2013/14 claim. Further information on the work performed is at Appendix A.

Officers in the benefits team were helpful and supportive throughout the process. However, there are areas where it would be possible to provide clearer evidence trails and so reduce audit queries and allow work to be completed more quickly. We will liaise on this with officers when planning our work on the 2014/15 benefit claim. For 2014/15 we will also introduce early testing of claims so that certification work can be phased over a longer time period. This may help with workflow for the benefits team.

Amendments in two areas were agreed to the draft claim prior to certification. The impact was to reduce the amount of subsidy claimed by £8803. We reported on a number of other issues to DWP in a qualification letter. Further information on the outcomes from our certification work is provided at Appendices A-C.

Summary of findings

Previous year recommendations

We review action taken on recommendations arising from our previous year certification report. We concluded that the Council had taken appropriate action on the recommendations made in our 2012/13 report.

Additional work in respect of the 2012/13 subsidy claim

In 2012/13 a number of issues arising from sample testing of benefit claims were agreed as errors with officers and reported to DWP using a qualification letter.

In following up these issues in 2013/14 officers concluded that for one case no error had been made and that there was no impact for subsidy purposes. DWP agreed to reconsider the impact on the Council's 2012/13 claim, subject to the Council's evidence being reviewed by the auditor.

We considered the additional evidence presented by the Council. We agreed with the Council's conclusion and reported this to DWP. We understand that the Council's comments have now been accepted by DWP.

Certification fees

The Audit Commission sets an indicative scale fee for certification work at each audited body.

The indicative scale fee for work on the Council's 2013/14 housing benefit subsidy claim reported in our March 2014 audit plan was £13,200. Subsequently the Audit Commission reduced indicative fees for work on the housing benefit subsidy claim by 12 per cent to reflect the removal of council tax benefit from the scheme. The revised indicative scale fee is therefore £11,616.

The Audit Commission indicative scale fee is based on outcomes from work in previous years. Where the work in the current year varies significantly from previous years then auditors can request a fee variation. In 2014/15 the work required to certify the Council's housing benefit subsidy claim was substantially greater than in previous years due to the number of errors identified and the level of additional testing which is then prescribed under the Audit Commission framework. We agreed an additional fee of £14800 with officers to cover this work. We also agreed an additional fee of £1200 for the review of evidence in respect of the issue raised with DWP on the 2012/13 subsidy claim, as this work is not covered by the scale fee.

We are therefore proposing a final fee for our 2013/14 certification work of £27,616. Our proposed fee is subject to approval by the Audit Commission, which is required to approve all variations to the scale fee.

Submission and certification

The Council submitted its draft claim ahead of the date specified by DWP.

Certified claims were due for submission to DWP by 30 November 2014. Due to the volume of work required on this year's claim the actual submission date was 3 December 2014. This had no impact for subsidy purposes.

The way forward

The recommendations arising from our certification work are at Appendix D.

Acknowledgements

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation with our 2013/14 certification work.

Grant Thornton UK LLP
February 2015

Appendices

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Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim)	Amended?	Amendment	Qualified?	Comments
Housing benefit subsidy claim Page 44	£56,016,833	Yes	- £8,803	Yes	<p>Overall approach</p> <p>The Audit Commission certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Two initial samples are tested (all transactions in year)</p> <ul style="list-style-type: none"> - 20 rent allowance cases - 20 rent rebate (tenants of non-HRA properties) cases <p>Where errors are identified then an additional sample of 40 claims is tested for the issue giving rise to the error.</p> <p>Under the Audit Commission framework auditors are also required to perform sample testing to cover previous year issues and confirm that these do not affect the current year's claim.</p> <p>Where errors are identified and the impact on the claim as a whole can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then auditors report this extrapolation to DWP using a qualification letter.</p>

Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim)	Amended?	Amendment	Qualified?	Comments
Housing benefit subsidy claim					<p>Issues reported by Qualification Letter</p> <p>Outcomes from claims testing</p> <p>A summary of the outcomes from certification testing of individual claims is included at Appendices B and C.</p> <p>For those errors where the impact for subsidy purposes could not be quantified exactly then extrapolations were performed and reported to DWP.</p> <p>It is for DWP to decide what action to take on the issues reported via qualification letter. However, the impact of the issues reported in our 2013/14 qualification letter is likely to be limited. Underpayment errors are reported to DWP, and require adjustments for individual claimants, but will have no impact for subsidy purposes as subsidy cannot be claimed for benefit which has not been awarded.</p> <p>For overpayments the aggregate impact of the reported extrapolations would be to increase local authority overpayments (paying nil subsidy) by £8468, with corresponding reductions at other lines paying full subsidy. However, the amount of subsidy receivable for local authority overpayments also depends on the aggregate value of these overpayments relative to a threshold set by DWP. Even after adjusting for the reported extrapolations the value of the Council's local authority overpayments would remain below this DWP threshold, and as such would continue to attract full subsidy.</p>

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Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim) (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim Page 46					<p>One further error identified from sample testing related to the misclassification of regulated tenancy cases. In this case the value of the extrapolated adjustment was £509,403. However, as the potential adjustment is between two lines both paying full subsidy there would be no net impact on subsidy payable.</p> <p>Reconciliation of benefit granted to benefit paid Auditors are required to test if the records for benefit granted and benefit paid have been reconciled in accordance with the software provider's instructions, and to report any unexplained difference.</p> <p>The Council performed the required reconciliations, but did not achieve a complete reconciliation for rent allowances, with the amount of benefit awarded exceeding the amount of benefit paid by £27.</p> <p>Issues leading to a claim amendment</p> <p>Non-HRA overpayments In 2014/15 the Audit Commission provided clarification to auditors in cases where local authority housing departments effectively act as the "landlord" for homeless claimants, with funding transferred from the benefit section.</p>

Appendix A: Details of claims and returns certified for 2013/14

Claim or return	Total subsidy claimed (draft claim) (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefit subsidy claim					<p>Overpayments can arise where homeless claimants vacate temporary accommodation without notifying the authority. In these cases the rent liability ceases the moment the claimant vacates the property. As subsidy cannot be claimed where there is no rent liability, these overpayments should be classified as "technical" overpayments, paying no subsidy.</p> <p>At Swale these payments had been classified as eligible overpayments paying subsidy at 40%. The Council has therefore reviewed all non-HRA overpayments for 2014/15. It was agreed that a total of 37 overpayments should be reclassified as "technical" overpayments.</p> <p>As all relevant claims were reviewed the impact for subsidy purposes could be quantified exactly and the claim amended. The net impact was to reduce subsidy payable by £8798.</p> <p>Non-HRA overpayments: outcomes from sample testing</p> <p>Our testing of an initial sample of 20 non-HRA cases identified one case where the incorrect treatment of service charges had led to an overpayment, and where the overpayment had been incorrectly classified. As there were only a small number of cases with the same potential error these were all reviewed. No further errors were found.</p> <p>As all relevant claims were reviewed the impact for subsidy purposes could be quantified exactly and the claim amended. The net impact was to reduce subsidy payable by £5.</p>

Appendix B: Outcomes from testing of benefit claims

	Cases tested	Errors identified	
2012/13 Follow up testing			
Under the Audit Commission framework follow up testing was performed in the following areas to address issues arising from our 2012/13 certification work.			
Calculation errors relating to child tax credits	40	0	
Calculation errors relating to non-dependent deductions	40	2	In one case the error had no impact on benefit. In the second case benefit was underpaid and there was no impact on subsidy.
Misclassification of regulated tenancy cases	40	5	Overpayment of benefit. The impact across all relevant claims was extrapolated and reported to DWP.
Incorrect start date for claim	40	1	Underpayment of benefit. No impact of subsidy.

Appendix B: Outcomes from testing of benefit claims

	Initial testing: Errors identified	Additional testing sample	Additional testing: Errors identified	
2013/14: Rent allowance initial testing				
Testing was performed on an initial sample of 20 benefit claims. For issues giving rise to errors additional testing was performed as prescribed by the Audit Commission framework.				
Calculation errors relating to capital	1	40	0	Overpayment of benefit. The impact across all relevant claims was extrapolated and reported to DWP.
Calculation errors relating to working tax credits	1	40	0	Underpayment of benefit. No impact on subsidy.
Calculation errors relating to child tax credits	1	Additional testing not required as issue already covered by 12/13 follow-up testing		Underpayment of benefit. No impact on subsidy.
Calculation errors relating to earned income	4	40	1	Overpayment of benefit. The impact across all relevant claims was extrapolated and reported to DWP.
Calculation errors relating to private pensions	1	40	2	Overpayment of benefit. The impact across all relevant claims was extrapolated and reported to DWP.
Calculation errors relating to child care payments	1	40	6	Overpayment of benefit. The impact across all relevant claims was extrapolated and reported to DWP.

Appendix B: Outcomes from testing of benefit claims

	Initial testing: Errors identified	Additional testing sample	Additional testing: Errors identified	
<p>2013/14: Rent rebates (tenants of non-HRA properties) initial testing</p> <p>Testing was performed on an initial sample of 20 benefit claims. For issues giving rise to errors additional testing was performed as prescribed by the Audit Commission framework.</p>				
<p>Overpayment classified as claimant error but should have been local authority error.</p>	1	Small population therefore officers decided to review all non-HRA claims with overpayments..	0	As all relevant claims were reviewed the impact for subsidy purposes could be quantified exactly and the claim was amended. The impact was to reduce subsidy payable by £5.
<p>Cases where eligible rent exceeded the LHA cap and the Council had either not applied the full LHA cap or had used an amount lower than the full LHA cap in calculations.</p>	4	In all cases the effect of the errors was to underclaim subsidy. As such under the Audit Commission framework additional testing is not performed.		<p>The issue was reported in the qualification letter to DWP.</p> <p>The issue applied to a limited number of cases with overpayments or part week payments starting in 2012/13. This issue was also noted in our 2012/13 certification report. The Council has amended its procedures from 1 April 2013 to address this issue.</p>

Appendix C: Fees

Claim or return	2012/13 fee	2013/14 indicative fee	2013/14 actual fee*	Variance year on year	Explanation for significant variances
	£	£	£	£	
Housing benefits subsidy claim	11,120	11,616	27,616	16,496	Increased volume of work associated with errors identified in previous year and from initial testing. Additional work to follow up 2012/13 issue at DWP request.
National non-domestic rates return (NNDR3)	1,930	0	0	(1,930)	Auditor certification of NNDR3 return not required for 2013/14.
Total	13,050	11,616	27,616	14,566	
* The 2013/14 actual fee includes a proposed increase to the scale fee. This increase is subject to approval by the Audit Commission, who are required to approve all variations to the scale fee.					

Appendix D: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No	Recommendation	Priority	Management response	Implementation date & responsibility	
Page 52	Housing and council tax benefit subsidy scheme				
	1	Officers should consider the nature of the errors identified from certification testing and take action on any training or supervisory issues identified to help reduce errors in future years.	Medium	Training has been carried out by the Assistant Revenues and Benefits Manager to ensure that all assessors are aware of the errors that have been made. Extra resources are being put in to the checking of claims particularly in the areas where errors were found in the 2014/15 audit. Extra staff will also be available to work on the 2014/15 audit to improve the process in the future.	Assistant Revenues and Benefits Manager Additional training already implemented. Increased checking of claims from March 2015.
	2	Benefit records for individual claimants should be amended in the current year for all errors identified from 2013/14 certification testing.	Medium	All errors identified from the 2013/14 certification testing will be corrected.	Assistant Revenues and Benefits Manager By 31 March 2015.



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The Audit Plan for Swale Borough Council

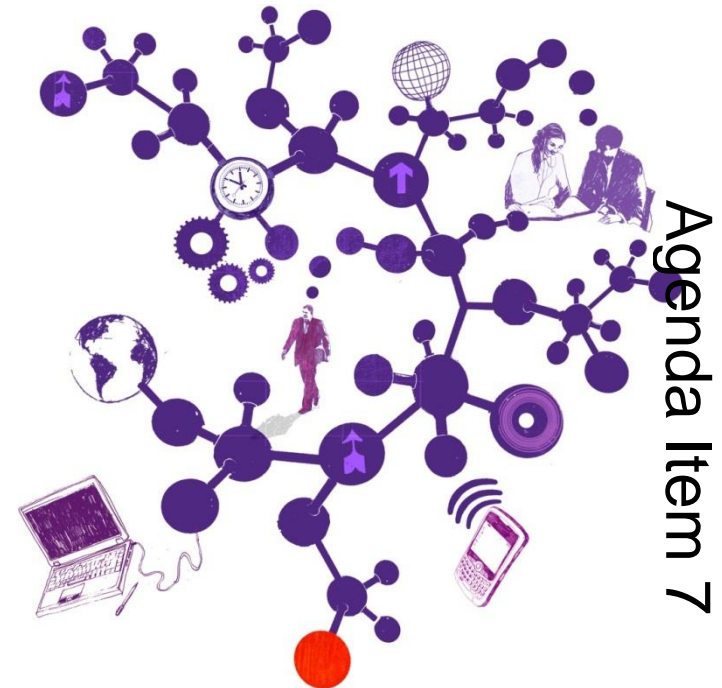
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Agenda Item 7

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 the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Value for Money
8. Results of interim work
9. Key dates
10. Fees and independence
11. Communication of audit matters with those charged with governance

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Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Regeneration

- You have worked closely with the private sector over a number of years to help develop a major regeneration programme for Sittingbourne. Planning proposals have now been submitted. To facilitate the scheme you plan to construct and operate new car parking facilities. Subject to obtaining planning approval work on the project will commence in 2015/16.

2. Financial position

- Local authorities continue to face significant financial pressures following reductions in government funding. Under the local government spending settlement authorities are facing an overall reduction in spending power of 1.8% in 2015-16, with an anticipated reduction for Swale of 4.1%. A robust medium-term financial planning framework is needed to address these pressures.

3. Delivering efficient and effective services

- In recent years your budget process has been supported by efficiency savings, including from new shared services arrangements, contract savings and internal efficiencies. The medium term financial plan anticipates that further efficiency savings will be needed in future years.

4. Timetable for financial reporting

- The Accounts and Audit Regulations 2015 come into effect from 1 April 2015. These bring forward the local government reporting timetable for published accounts to 31 July in 2017/18. In 2017/18 draft financial statements will need to be prepared by 31 May.



Our response

We will

- monitor the progress of regeneration plans and consider any issues which relate to our value for money conclusion for 2014/15.

We will

- review your financial planning framework as part of the work to support our value for money conclusion.

We will

- consider if you continue to have efficient and effective arrangements for the delivery of services as part of the work to support our value for money conclusion.

Although not an issue for 2014/15 we will

- continue to work with you to help identify ways of streamlining the process for preparing the financial statements.

Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

Developments and other requirements

1. Financial reporting

- Changes to the CIPFA Code of Practice

2. Legislation

- Local Government Finance settlement

3. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans

5. Other requirements

- The Council is required to submit a Whole of Government accounts pack
- The Council completes a claim for housing benefit subsidy grant on which audit certification is required

Our response

- We will
- liaise with the s finance team on relevant issues prior to the accounts being prepared
 - ensure that you comply with the requirements of the CIPFA Code of Practice through our work to review the 2014/15 financial statements.

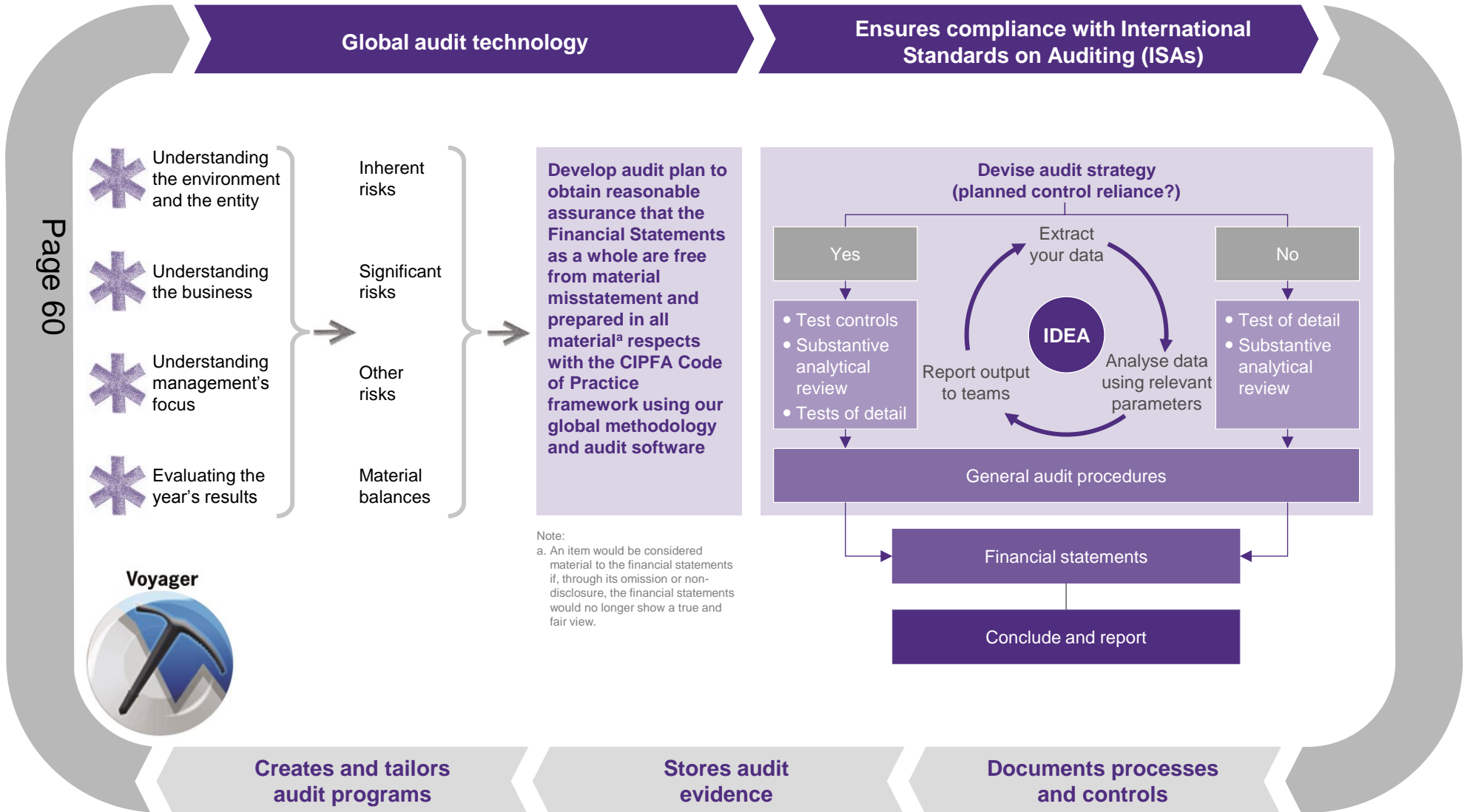
- We will
- discuss the impact of legislative changes through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

- We will
- review the arrangements in place for the production of the AGS
 - review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge

- We will
- review your performance against the 2014/15 budget
 - undertake a wider review of financial resilience issues to support our VFM conclusion

- We will carry out work on the WGA pack in accordance with requirements
- We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council we have determined that the risk of fraud arising from revenue recognition can be rebutted because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including those at Swale Borough Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • testing of journal entries • review of accounting estimates, judgments and decisions made by management • review of any unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses Page 62	Creditors understated or not recorded in the correct period	Work completed to date: <ul style="list-style-type: none">• Identification and walkthrough of system controls Further work planned: <ul style="list-style-type: none">• Substantive testing of creditor balances• Cut-off testing to ensure that transactions have been recorded in the correct accounting period.• Review of yearend reconciliations to ensure completeness of information in the accounts
Employee remuneration	Employee remuneration accruals understated	Work completed to date: <ul style="list-style-type: none">• Identification and walkthrough of system controls Further work planned: <ul style="list-style-type: none">• Review of yearend reconciliations to ensure completeness of information in the accounts• Trend analysis to assess completeness of payroll information

Value for money

Value for money

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

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review your Medium Term Financial Plan and financial strategy as part of our work to assess your arrangements for financial resilience.
- review your performance against the 2014/15 budget, including the delivery of planned savings.

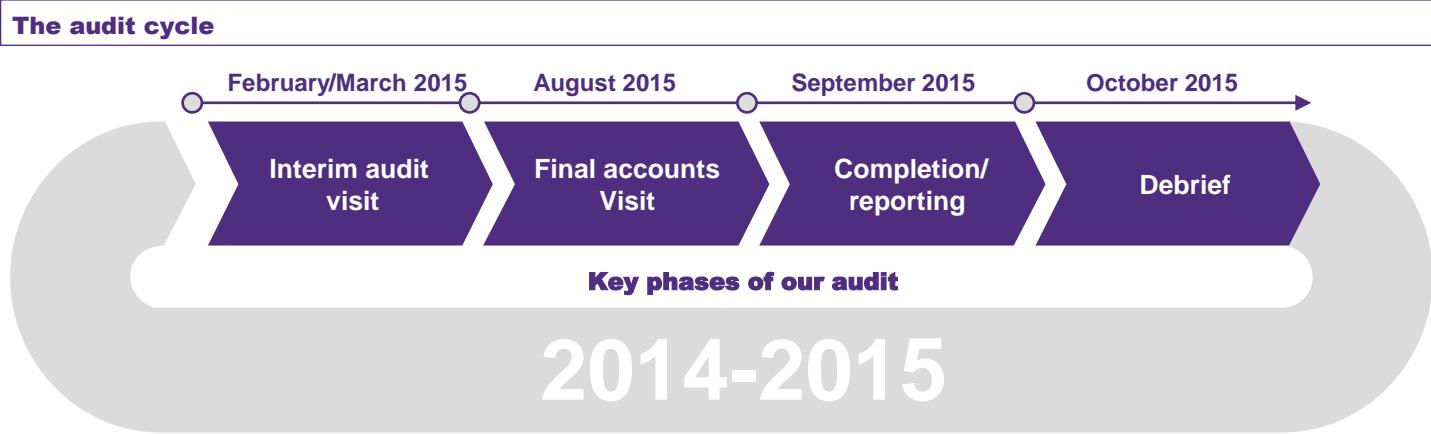
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Findings and conclusion
Internal audit Page 64	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p>	<p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p> <p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices. 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>

Key dates



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Date	Activity
January/February 2015	Planning
February/March 2015	Interim site visit
25 March 2015	Presentation of audit plan to Audit Committee
August 2015	Year end fieldwork
TBA	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2015	Sign financial statements opinion and VFM conclusion

Fees and independence

Fees

	£
Council audit	80,985
Grant certification (indicative)	9,790
Total fees (excluding VAT)	90,775

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.

Fees for other services

Service	Fees £
None	Nil

Fees for other services

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

Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

Communication of audit matters with those charged with governance

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

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

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

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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



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Audit Committee Update

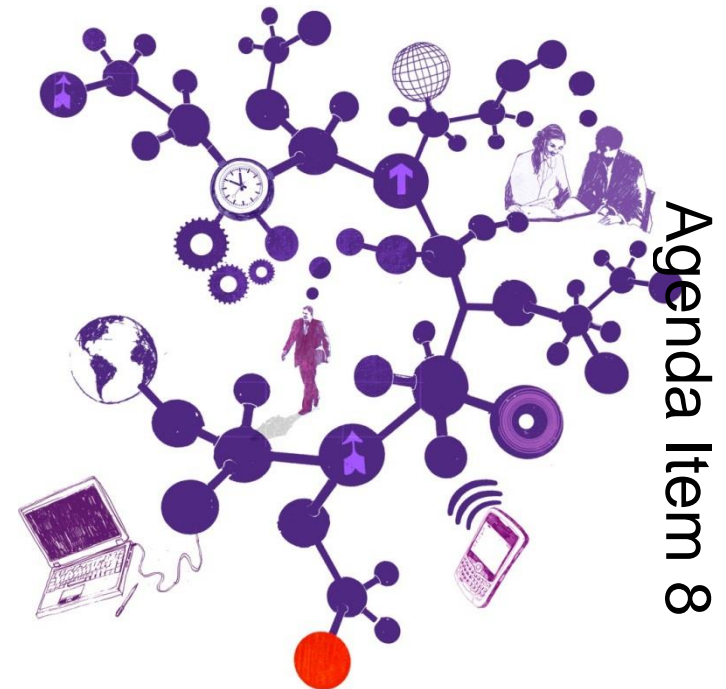
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Introduction

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

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

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

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Progress at March 2015

Work	Planned date
<p>Interim accounts audit Our interim work will include:</p> <ul style="list-style-type: none"> • work to understand how the Council's functions are delivered, the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing • early work on any emerging accounting issues. 	<p>January – March 2015</p> <p>The outcomes from our work to date are reported in our 2014/15 Audit Plan, which is included as a separate item on today's agenda.</p>
<p>2014/15 Accounts Audit Plan Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the 2014-15 financial statements.</p>	<p>Our 2014/15 Audit Plan is included as a separate item on today's agenda.</p>
<p>2014/15 final accounts audit</p> <p>In 2014/15 Grant Thornton has again run accounts workshops for officers at local authorities involved in preparing the financial statements. The workshops drew attention to current issues and changes in guidance and provided the opportunity for discussion and questions. The workshops were attended by officers from the Swale finance team.</p> <p>Locally we met with the Council's finance team on 27 February 2015 to discuss closedown planning for the 2014/15 financial statements. We are also liaising with officers on a number of specific issues and queries.</p>	<p>August - September 2015</p>

Progress at March 2015

Work	Planned date
<p data-bbox="58 329 526 361">Value for Money (VfM) conclusion</p> <p data-bbox="58 405 1197 436">Our VfM conclusion is based on the following criteria specified by the Audit Commission:</p> <ul data-bbox="58 451 1348 558" style="list-style-type: none"><li data-bbox="58 451 1162 482">• the organisation has proper arrangements in place for securing financial resilience;<li data-bbox="58 496 1348 558">• the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. <p data-bbox="58 611 1417 678">Our work will be based on a risk assessment to identify areas of risk to our VfM conclusion. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report.</p>	<p data-bbox="1452 337 1815 368">February - September 2015</p>

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Emerging issues and developments

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All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas.

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production' almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Engagement Manager.



Stronger futures: development of the LGPS

Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors. The review is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014 administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

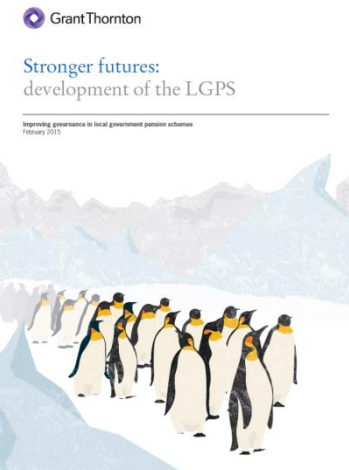
there are increasingly strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees, including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk. Over half of the funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage. Nearly half of funds have no information around the value of their liabilities between the triennial valuations.

Hard copies of our report are available from your Engagement Lead or Engagement Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system for funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the place-based budget.



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SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme 2014/15



Statement of Purpose:

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

Audit Committee Members:

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

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

Audit Committee Terms of Reference

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

Work Programme:

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