

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 30 November 2016

Time: 7.15 pm – **Please note the time**

Venue: Council Chamber, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

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

Quorum = 3

Pages

1. Emergency Evacuation Procedure

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

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

The Chairman will inform the meeting that:

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

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

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

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

2. Apologies for Absence and Confirmation of Substitutes

3. Declarations of Interest

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

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

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

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

(c) Where it is possible that a fair-minded and informed observer, having considered the facts would conclude that there was a real possibility that a Member might be predetermined or biased the Member should declare their predetermination or bias and then leave the room while that item is considered.

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.

4. Minutes

To approve the Minutes of the Meeting held on 14 September 2016 (Minute Nos. 872 - 878) as a correct record.

PART A REPORT FOR RECOMMENDATION TO COUNCIL

- | | |
|---|--------|
| 5. Treasury Management Half Year Review | 1 - 12 |
|---|--------|

PART B REPORTS FOR DECISION BY THE AUDIT COMMITTEE

- | | |
|-----------------------------------|---------|
| 6. Annual Audit Letter | 13 - 24 |
| 7. Audit Committee Update | 25 - 38 |
| 8. Internal Audit Interim Report | 39 - 64 |
| 9. Audit Committee Work Programme | 65 - 70 |

Issued on Monday, 21 November 2016

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**

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Audit Committee		Agenda Item: 5
Meeting Date	30 November 2016	
Report Title	Treasury Management Half Year Report 2016/17	
Cabinet Member	Duncan Dewar-Whalley, Cabinet Member for Finance & Performance	
SMT Lead	Nick Vickers, Head of Finance	
Head of Service	Nick Vickers, Head of Finance	
Lead Officer	Olga Cole, Management Accountant	
Key Decision	No	
Classification	Open	
Recommendations	To note the performance information in this report.	

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2016/17, including compliance with treasury limits and Prudential Performance Indicators. The report will go to Council on 25 January 2017.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. In accordance with the Code of Practice members are informed of Treasury Management activities twice a year.

2. Background

Market Environment

- 2.1 The main external issue in the first six months of the year has been the Bank of England's decision in August to reduce the base rate to 0.25% and further gilt and corporate bond purchases (Quantative Easing) and cheap funding for banks (Term Funding Scheme) to maintain the supply of credit to the economy. These post Brexit vote actions were made to pre-empt a slowdown in the economy but second quarter growth of 0.5% was better than expected. The reduction in base rate has led to further reduction in the rates offered by banks for deposits and from money market funds. The Council currently has no exposure to equity markets which have performed strongly in the first half of the year.
- 2.2 Inflation is expected to pick up due to a rise in import prices, dampening real wage growth and real investment returns. The August Quarterly Inflation Report from the Bank of England forecasts a rise in CPI to 0.9% by the end of calendar 2016 and thereafter a rise closer to the Bank's 2% target over the

coming year, as previous rises in commodity prices and the sharp depreciation in sterling begin to drive up imported material costs for companies.

- 2.3 Some of the UK's largest property pooled fund providers closed their funds in the immediate aftermath of the Brexit vote and the CCLA LAMIT Property Fund, which the Council invests in, wrote down capital values by 4%. There has since the initial Brexit reaction capital values have reduced marginally but it was already widely forecast that UK Commercial Property returns in the next few years would be driven by income returns. Fidelity are forecasting returns for UK Commercial Property of 6-7% per annum for the next five years. The Council added £1.5m to its investment in the CCLA Fund in September.

Borrowing

- 2.4 The Council continues to be debt free. On 16 March Council agreed to a variation in the Budget Framework permitting the Council to borrow up to £30m subject to individual business cases to Cabinet. The aim is to use this permission strategically to drive forward regeneration of the borough and produce higher investment returns for the Council. Given the underlying financial position of the Council debt interest costs need to be met through rental income not from the base budget. The Council will look to internally borrow to minimise debt charge costs.

Investments

- 2.5 The counterparties agreed by Cabinet and Council earlier this year when the 2016/17 Treasury Strategy was approved are:

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice) Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian	£1.5m limit per bank, £3m country limit

Bank Ltd, Westpac Banking Corp Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	
Short Term Money Market Funds	£3m each
CCLA LAMIT Local Authority Property Fund	£3m
Supranational Bonds	£6m in aggregate
Corporate Bond funds and Corporate Bonds	£3m in aggregate
Covered Bonds	£9m in aggregate with £3m limit per bank
Absolute return funds	£3m in aggregate
Equity income funds	£3m in aggregate
Cash Plus Funds and Short Dated Bond Funds	£1.5m each, £3m in aggregate

- 2.9 Investments held at 30 September 2016 can be found in Appendix I.
- 2.10 The Council did not need to borrow to cover cash flow purposes in the period.
- 2.11 Interest income received for the first half of 2016/17 was £126,280 which is £75,930 above the original budget of £50,350.
- 2.12 For the six months to 30 September 2016, the Council maintained an average sum invested of £35m compared with an original budget of £33m, and an average rate of return of 0.71% compared to a budget of 0.30%.
- 2.13 The results for the six months to 30 September 2016 show that the Council achieved 0.43% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.29% average return rate above the average Bank of England Base Rate

Compliance with Prudential Indicators

- 2.14 The Council can confirm that it has complied with its Prudential Indicators for 2016/17 which were set in February as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget. They will be updated to reflect the Sittingbourne Town Centre redevelopment proposals in the Investment Strategy for 2017/18 to Council in February 2017.
- 2.15 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

3.1 No changes are proposed at this stage.

4. Alternative Options

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

5. Consultation Undertaken

5.1 Consultation has been undertaken with Arlingclose.

6. Implications

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

7. Appendices

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

- Appendix I: Investments as at 30 September 2016
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments as at 30 September 2016

Counterparty	Long-Term Rating (Moody's)	Balance Invested as at 30 September 2016 £'000
Lloyds TSB Bank Plc	A1	3,000
Santander UK Plc (180 Day Notice Account)	A1	3,000
Svenska Handelsbanken	Aa2	3,000
Nationwide Building Society	Aa3	3,000
HSBC Bank (90 Day Notice Account)	Aa2	3,000
Total Banks and Building Society		15,000
Goldman Sachs Money Market Fund	Aaa-mf	3,000
Aberdeen Money Market Fund	Aaa-mf	3,000
Black Rock Money Market Fund	Aaa-mf	3,000
BNP Paribas Money Market Fund	Aaa-mf	3,000
Deutsche Money Market Fund	Aaa-mf	1,520
Morgan Stanley Money Market Fund	Aaa-mf	3,000
CCLA Property Fund		3,000
Total Money Market and Property Funds		19,520
Gross Total		34,520

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

Investment Activity in 2016/17

Investments	Balance on 01/04/2016 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2016 £'000	Average Rate %	Average Life
Short Term Investments	25,375	110,405	(104,260)	31,520	0.71	109 days
Long Term Investments	1,500	1,500	0	3,000	4.49	6 years
Total Investments	26,875	111,905	(104,260)	34,520		
Increase/(Decrease) in Investments				7,645		

Prudential and Treasury Management Indicators

1. Background

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

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

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

Gross Debt and the Capital Financing Requirement	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Gross CFR	4,770	4,374	4,000	3,619
Less: Other Long Term Liabilities	(550)	(382)	(181)	(24)
Borrowing CFR	4,220	3,992	3,819	3,595
Less: Existing Profile of Borrowing	0	0	0	0
Cumulative Maximum External Borrowing Requirement.	4,220	3,992	3,819	3,595

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

3. Capital Expenditure

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

Capital Expenditure and Financing	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Total Expenditure	2,309	2,739	50	15
Capital receipts	127	605	35	0
Grants	1,436	2,104	0	0
Revenue contributions	746	30	15	15
Total Financing	2,309	2,739	50	15

Prudential and Treasury Management Indicators

4. Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Financing Costs to Net Revenue Stream	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%
Total	1.51	1.58	1.66

5. Capital Financing Requirement

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

Capital Financing Requirement	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	4,770	4,374	4,000	3,619

6. Actual External Debt

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

Actual External Debt as at 31/03/2016	£'000
Borrowing	0
Other Long-term Liabilities	550
Total	550

7. Incremental Impact of Capital Investment Decisions on Council Tax

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

Incremental Impact of Capital Investment Decisions	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
	%	%	%
Increase / (Decrease) in Band D Council Tax	(0.04)	0.00	0.00

Prudential and Treasury Management Indicators

8. Authorised Limit and Operational Boundary for External Debt

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

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

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

At the Council meeting on 16 March 2016, Members approved a change to the budget framework to allow for funding to be provided up a maximum borrowing of £30m (minute 607/03/2016).

Authorised Limit for External Debt	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	35,000	35,000	35,000
Other Long-term Liabilities	2,000	2,000	2,000
Total Debt	37,000	37,000	37,000

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

Operational Boundary	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	30,000	30,000	30,000
Other Long-term Liabilities	382	181	24
Total Debt	30,382	30,181	30,024

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2016.

Prudential and Treasury Management Indicators

9. Adoption of the CIPFA Treasury Management Code

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

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

10. Interest Rate Exposure

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

Upper Limit for Interest Rate Exposure	Existing level at 30/09/16 %	2016/17 Approved Limit %	2017/18 Approved Limit %	2018/19 Approved Limit %
Interest on fixed rate borrowing	0	100	100	100
Interest on fixed rate investments	-48	-100	-100	-100
Upper Limit for Fixed Interest Rate Exposure	-48	0	0	0
Interest on variable rate borrowing	0	100	100	100
Interest on variable rate investments	-52	-100	-100	-100
Upper Limit for Variable Interest Rate Exposure	-52	0	0	0

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

11. Maturity Structure of Fixed Rate Borrowing

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

Maturity structure of fixed rate borrowing	Existing level at 30/09/16 %	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
Under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and above	0	0	100

Prudential and Treasury Management Indicators

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during the six months to 30 September 2016.

12. Credit Risk

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

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

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

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

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

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

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

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

Total Principal Sums Invested Over 364 Days	2016/17 £'000	2017/18 £'000	2018/19 £'000
Upper Limit Estimate	9,000	10,000	10,000
Actual	3,000	-	-

Prudential and Treasury Management Indicators

14. Investment Benchmarking for the six months to 30 September 2016

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Rate	Average 7 day LIBID Rate
0.71%	0.30%	0.42%	0.28%

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The Annual Audit Letter for Swale Borough Council

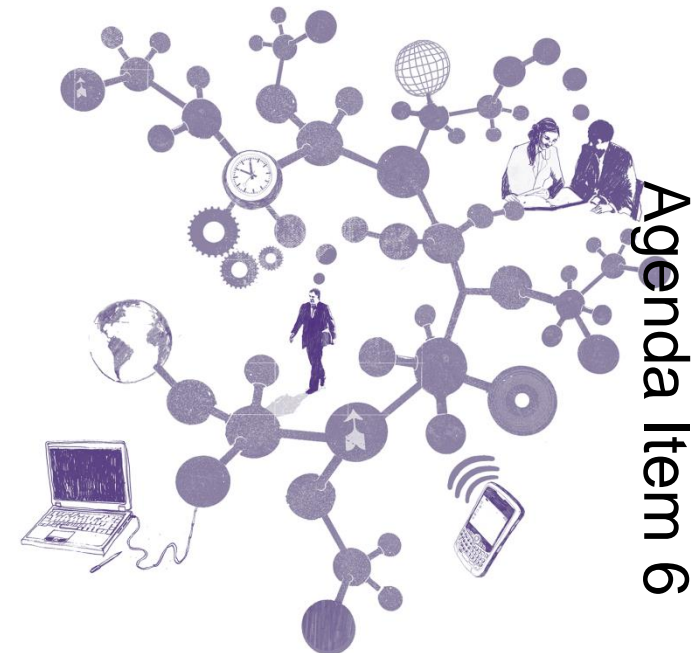
Year ended 31 March 2016

October 2016

Page 13

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Agenda Item 6

Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	8

Appendices

A Reports issued and fees

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2016.

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

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 14 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 26 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 26 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 26 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2015/16 claim is in progress and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our 2015/16 Certification Report.

Working with the Council/Authority

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1,218,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

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

The scope of our audit

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

This includes assessing whether:

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

We also consider if the other information contained in the Council's Annual Financial Report and the content of the Annual Governance Statement is consistent with our understanding of the Council and with the accounts on

which we give our opinion.

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

Our audit approach is risk based. Our assessment of risk was based on a thorough understanding of the Council's business. Overleaf we set out the key risks we identified, the work we performed in response to those risks and the results of our work.

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Employee remuneration understated</p> <p>For all Councils employee remuneration is a significant element of total expenditure. We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested payroll information for a sample of employees to supporting documentation • reviewed yearend reconciliations to ensure the information in the accounts was complete <p>We did not identify any issues to report.</p>
<p>Operating expenses understated</p> <p>For all Councils operating expenditure is a significant element of total expenditure. We designed our work to address the risk that in the Council's accounts creditors had been understated or had not been recorded in the correct period.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested creditor amounts to supporting documentation • tested 2016/17 payments to ensure that these had been posted to the correct accounting year <p>We did not identify any issues to report.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts. The value of the pension fund net liability is estimated by specialist actuaries.</p> <p>We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • reviewed the competence, expertise and objectivity of the actuary performing the pension fund valuation • reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made • reviewed the consistency of disclosures in the financial statements with the actuarial report <p>We did not identify any issues to report.</p>

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment</p> <p>For all Councils Property Plant And Equipment (PPE) is an item with a significant value on the balance sheet. We designed our work to address the risk that PPE revaluation measurements were not correct.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none">• gained an understanding of system controls and performed a "walkthrough" of the key controls to assess if these were designed effectively• reviewed management's processes and assumptions for estimating asset values, including review of the work performed by external valuers• reviewed the competence, expertise and objectivity of the external valuers• performed testing to ensure information on revaluations was correctly input to the Council's asset register <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 14 September 2016.

The Council's draft accounts were approved for issue ahead of the national deadline of 30 June 2016. Both the accounts and the supporting working papers were prepared to a very high standard. We did not identify any adjustments requiring amendment to the primary financial statements. A small number of amendments were agreed to disclosure notes.

The Council continues to improve the presentation of its financial statements under the "decluttering" agenda. It has also made progress in preparing for the acceleration in the national accounts timetable from 2017/18, with a review of closedown processes and evidence that the 2015/16 accounts were substantially complete by the end of May.

Other financial statement responsibilities

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

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

We also review the Council's Annual Governance Statement. We concluded that this had been prepared in accordance with the relevant guidance and that the

information it contained was consistent with our knowledge and with the accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step was to perform a risk assessment and identify the key risks where we focused our work.

The key risks we identified and the work we performed are set out in the table overleaf. Following our work we concluded that the risks identified were sufficiently mitigated and that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial planning The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 21</p>	<p>We updated our understanding of the Council's medium term financial planning framework and it's planned approach to addressing future reductions in central government funding.</p>	<p>The Council has a three year Medium Term Financial Plan (MTFP) which is regularly updated and aligned with the annual budget-setting process. For 2016/17 the Council identified the annual savings required by the MTFP, building these into base budgets.</p> <p>The Council has a history of sound financial management. It achieved a gross revenue underspend on services of £1,958,000 in 2015/16, and currently is again forecasting an underspend against revenue budgets in 2016/17. This pattern of underspends against budget, which is consistent with previous years, indicates that the overall assumptions within the MTFP remain prudent.</p> <p>The Council continues to face financial pressures associated with reductions in government funding. In February 2016 the MTFP identified a funding gap of £966,000 in 2017/18, with a further gap of £2,711,000 in 2018/19. The Council has now produced a 10 year MTFP with updated assumptions for council tax and business rate income. This updated plan indicates that there is a reduced overall funding gap over the longer term, but requires the Council to achieve further service efficiency savings.</p> <p>The Council is taking a pro-active approach to address these pressures, with action to deliver efficiencies and increase the focus on income generation as part of a wide-ranging transformation agenda. Initiatives under this strategy include the creation of an internal Transformation Unit, work to redesign services provided through the Mid Kent Improvement Partnership, and proposals for a joint venture with a private sector partner to help maximise income from the sale or development of the Council's assets. Given uncertainty over the level of future funding from New Homes Bonus (NHB), the Council has also substantially reduced the extent to which NHB is used to support base budgets in 2016/17.</p> <p>The Council continues to have a strong focus on supporting wider change and regeneration within the Borough. Delivering its strategic objectives whilst also addressing future financial pressures will continue to require a robust medium term financial planning framework.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	60,739	60,739	80,985
Housing Benefit Grant Certification (indicative)*	20,710	TBC	24,790
Total fees (excluding VAT)	81,449	TBC	105,775

Fees for other services

Service	Fees £
Audit related services	None
Non-audit services • Investors in People assessment	8,510

*Outwork on the Council's 2015/16 housing benefit claim is in progress.

Reports issued

Report	Date issued
Audit Plan	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016
Certification Report	January 2017 (planned)



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

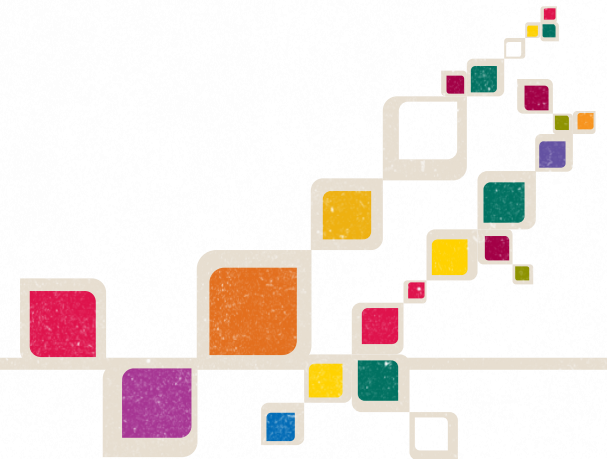
Page 25 November 2016

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



Introduction

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

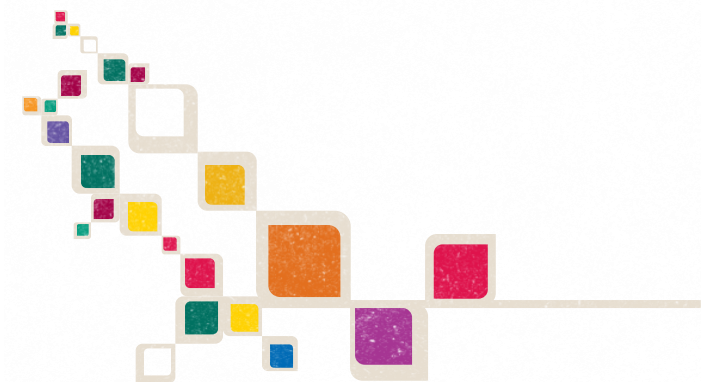
The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Page 27 Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at www.grant-thornton.co.uk/en/Services/Public-Sector/ and where you can also download copies of our publications.

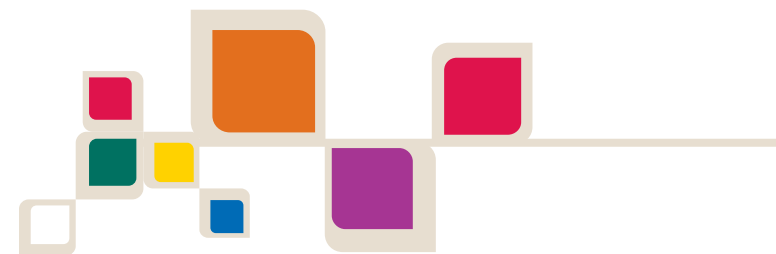
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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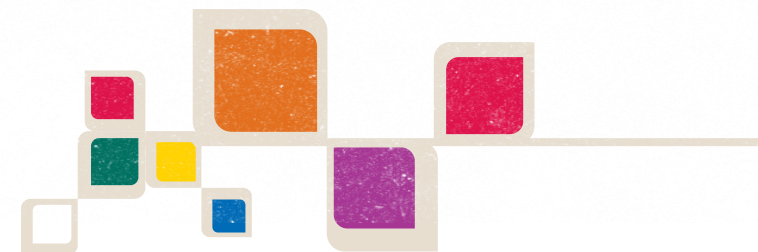


Planned work



2016/17 work	Planned Date	Comments
<p>Interim accounts audit Our interim audit work will include:</p> <ul style="list-style-type: none"> • work to understand the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing in areas such as payroll and payments. 	<p>December 2016 – March 2017</p>	
<p>Accounts Audit Plan Under auditing standards we issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	<p>March 2017</p>	
<p>Final accounts audit Work to complete our audit of the 2016-17 financial statements.</p> <p>We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.</p>	<p>July 2017</p>	

Progress at March 2016



2016/17 work	Planned Date	Comments
<p>Value for Money (VfM) conclusion</p> <p>We are required by section 21 of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VFM) conclusion.</p> <p>In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: <i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"</i>.</p> <p>AGN03 provides examples of proper arrangements using three sub-criteria;</p> <ul style="list-style-type: none"> • informed decision making • sustainable resource deployment • working with partners and other third parties. <p>These sub-criteria are intended to guide auditors in reaching their overall conclusion, but they not separate criteria for assessment purposes and auditors are not required to reach judgements on each of them.</p>	<p>February - July</p>	<p>We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.</p>

Grant Thornton Publications

Page 30



Better Together: Building a successful joint venture company

Grant Thornton reports

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

Page 31

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>



ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together
Building a successful
joint venture company



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts. Our report explores these in further detail, concludes with a check list of suggested actions and provides insights from case study authorities who tell their stories of how they have achieved success.

In February 2015 regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18 authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;

Grant Thornton reports



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>

Understanding Local Government Brexit Impacts

Grant Thornton reports

The people of the UK have made a decision to leave the EU. What happens next - and the implications for businesses and organisations in the UK - is less clear.

Page 33

The UK has voted to leave the European Union, with significant structural and financial implications for local government and the wider public sector. Until the Government opts to trigger Article 50 (the official notification of the intention to withdraw and the point at which the clock starts on the two year negotiating period) nothing changes in a formal sense, in that the UK still retains the full rights and obligations of a member of the EU. However, the referendum result has created significant socio-economic uncertainty which will present challenges to local government in the delivery of services and other economic development priorities.

Our message in the briefing note "Understanding Local Government Brexit Impacts" is that:

- as yet, nothing has changed
- there is time to plan
- it is important to start planning now.

Local government and individual authorities will be required to play a significant role in designing and then implementing the post-Brexit public service landscape, where the frameworks for public services will require a large degree of re-invention in terms of funding, procurement and delivery. Assembling relevant data, modelling potential impacts and providing clear evidence to central government and other stakeholders will be needed to support these frameworks.

Our briefing note, which is available on our website, sets out:

- the potential outcome scenarios over a range of timelines
- an outline diagnostic for assessing the potential impacts at an organisational and then place level.

Local Government Accounting and other issues

Page 34



Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Page 35

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15 (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure, where capital spending fell by 22 per cent overall.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern. However, the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

Page 36

We were fortunate to have the CEO of the IIRC (International Integrated Reporting Council) speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets.

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

Integrated Reporting

Further information is available on the IIRC's website

Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

Page 37

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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GRT102468

Audit Committee Meeting	
Meeting Date	30 November 2016
Report Title	Interim Internal Audit & Assurance Report 2016/17
Cabinet Member	Cllr Duncan Dewar-Whalley
SMT Lead	Mark Radford
Head of Service	Rich Clarke
Lead Officer	Rich Clarke
Key Decision	No
Classification	Open
Forward Plan	Reference number: N/A
Recommendations	1. The Committee notes and comments as appropriate on progress against the internal audit plan and findings to date.

1 Purpose of Report and Executive Summary

- 1.1 The report provides an update to the Committee on work conducted by Mid Kent Audit in pursuance of the audit plan agreed by this Committee in March 2016. It also provides commentary on the broader objectives of the service in helping to ensure good governance at the Council.

2 Background

- 2.1 Internal audit has a statutory basis as a service through the Accounts & Audit Regulations 2015. Its principal objective is to examine and evaluate the effectiveness of the Council's systems of internal control, risk management and corporate governance.
- 2.2 This report provides evidence to the Committee in discharging its constitutional responsibilities for overseeing and commenting upon governance at the Council.
- 2.3 The report provides an interim position at approximately the mid-year point. A full annual report, including the Head of Audit Opinion, will come to this Committee in June 2017.

4 Alternative Options

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

5 Consultation Undertaken or Proposed

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

6 Implications

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

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

7 Appendices

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

- Appendix I: Mid Kent Audit Interim Audit & Assurance Report 2016/17.

8 Background Papers

This report follows on from the 2016/17 Audit Plan. That plan was agreed by the Audit Committee in March 2016 and is available among papers for that meeting.

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

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MID KENT AUDIT

**Interim Internal Audit &
Assurance Report**

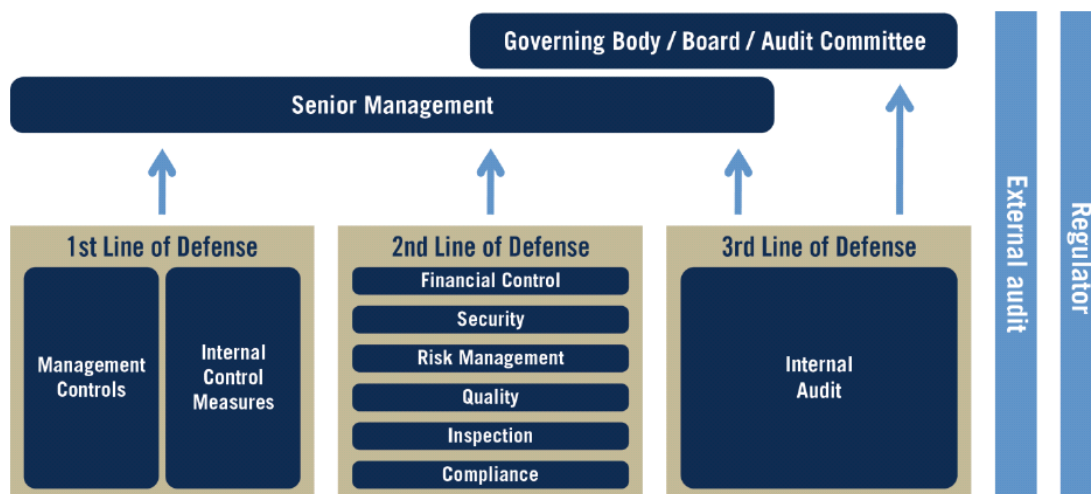
November 2016

Swale Borough Council



Introduction

1. Internal audit is an objective and independent assurance and consulting service designed to enhance and protect the Council’s values and priorities. It helps the Council by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.
2. Regulation 5 of the Accounts and Audit Regulations 2015 shows the authorities must keep an internal audit service. That service must “*evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”.
3. We base our work on the [Public Sector Internal Audit Standards](#) [the Standards]. These stem from, and extend, the Institute of Internal Audit’s Global Standards, Code of Ethics and International Professional Practices Framework. This means internal audit at the Council conforms to the same demands present across similar services throughout the world in public, private and voluntary organisations.
4. The Standards demand an annual opinion from the Chief Audit Executive (the Head of Audit Partnership fulfils this role at the Council). The Opinion considers internal control, corporate governance and risk management. It is a key part of the overall assurance Members and Officers of the Council draw on when evaluating governance. The diagram below¹ shows internal audit’s position alongside other sources of assurance:



5. This report updates Members on progress and findings so far as we complete the Audit Plan approved by this Committee in March 2016.

¹ Taken from the Institute of Internal Audit’s Professional Practices Framework. Like all IIA publications intended for a global audience, it uses US spelling.

Internal Control

6. Internal control is how the Council ensures achievement of its objectives. In particular, internal control achieves and displays effectiveness and efficiency, reliable financial reporting and compliance with law, rules and policies. It incorporates both financial and non-financial aspects.
7. We gather evidence to support this part of the Opinion principally through completing the reviews set out in our audit plan. Besides considering the findings of each review individually we must assess whether there are any overall messages we need to report to Members and Senior Management.
8. In the first half of 2016/17 the Council has largely preserved its record of audit reviews identifying effective control environments with few minor recommendations for improvement. Notably this includes areas such as *Data Protection* where complex and technical legal demands often lead to weaknesses in control environments. We see this from each of our most recent reviews in this area elsewhere in the partnership returning a weak assurance rating. At Swale, however, we found good arrangements in place and offered a sound conclusion.
9. However, we also in this period recorded the first weak assurance rated review at the Council since March 2015. As reported in our 2015/16 Annual Report, a full year with no adverse audit conclusions was a significant measure of the overall strength of control but also attributable to circumstance. We use a risk-based planning approach and so focus on areas of potential weakness. Therefore we anticipate a handful of weak assurance ratings even in organisations with overall effective arrangements.
10. At Swale, our recently reported review of *Planning Enforcement* fell into this category. We give further details on the findings of this review later in this report, including information on management's response to the key recommendations. Our review did not suggest any broader concerns on the Council's control environment, but we will continue progress against the audit plan before reporting our final conclusions to Members next June.

Audit Plan Progress

11. The table below shows progress in days delivered against the plans

Type of work	Plan Days	To Oct 16	To Oct %	Forecast Y/E	Forecast %
Assurance Projects	345	125	36%	315	92%
Concluding 15/16	0	28	n/a	28	n/a
Other Work	95	81	85%	141	148%
Total (excl 15/16)	440	206	47%	456	104%

Audit Review Findings so far

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

	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
2015/16 Assurance Projects Completed After 1 April 2016							
	Operational	ICT Network Controls	5*	5*	Apr-16	STRONG	Reported to Members Jul-16
	Operational	Customer Services/CRM	15	6	Apr-16	STRONG	Reported to Members Jul-16
	Finance	Accounts Receivable	10	1	Apr-16	STRONG	Reported to Members Jul-16
	Finance	Payroll	5*	4*	May-16	STRONG	Reported to Members Jul-16
	Operational	Learning & Development	8*	7*	May-16	SOUND	Reported to Members Jul-16
I	Governance	Good Governance Framework	5*	4*	Jul-16	n/a	
II	Operational	Communications (Social Media)	15	1	Jul-16	STRONG	
Planned 2016/17 Assurance Projects Completed to Date							
III	Operational	Grounds Maintenance	15	16	Jul-16	SOUND	
IV	Operational	CCTV	15	15	Aug-16	SOUND	
V	Finance	Council Tax	15	13	Aug-16	STRONG	
VI	Operational	Property Income	15	15	Sep-16	SOUND	
VII	Governance	Data Protection	15	14	Oct-16	SOUND	
VIII	Operational	Planning Enforcement	15	21	Oct-16	WEAK	
Planned 2016/17 Assurance Projects In Progress							
	Operational	Licensing	18	9			Fieldwork stage
	Operational	Elections	15	12			Fieldwork stage
	Operational	Building Control Partnership	15	3			Fieldwork stage
	Operational	Complaints	15	1			Planning stage
	Operational	ICT Controls	15	1			Planning stage

	Review Type	Title	Plan Days	16/17 Days	Report Issue	Assurance Rating	Notes
	Operational	Residents' Parking	8*	1*			Planning stage
	Governance	Members' Allowances	10	2			Planning stage
Planned 2016/17 Assurance Projects Yet To Begin							
	Finance	Accounts Payable	10				
	Finance	General Ledger Journals	15				
	Finance	Bank/Treasury	10				
	Finance	Payroll	10				
	Finance	Housing Benefits	10				
	Governance	Corporate Governance	10				
	Operational	Environmental Response	15				
	Operational	Rent Deposit Scheme	10				
	Operational	Private Sector Housing	10				
	Operational	Leisure Centre Contract	15				
	Operational	Developer Contributions	15				
Planned 2016/17 Assurance Projects Postponed or Cancelled							
	Governance	Business Continuity	10*				Originally planned as a shared audit with Ashford BC, but postponed to 2017/18 following end of the ABC/SBC shared arrangement
	Operational	ICT Procurement	15	1			Likely to be postponed until 2017/18 to allow for recruitment of new Head of ICT and restructure within the service
	Operational	Channel Shift	15				Removed from audit plan owing to substantial overlap with work of the transformation team. To be replaced by anticipated review in 2017/18 on the transformation programme effectiveness.
	Operational	Land Charges	6*				Postponed to 2017/18 to avoid overlap with review of planning support scheduled in early 2017

I: Good Governance Framework Review

13. Our review against the Framework confirms all 4 Councils are on course to meet each of its 7 principles before preparing their 2016/17 Governance Statements. We also identified several notable examples of good governance at each Council.
14. However, some steps would further help each Council to bring their existing governance approaches up-to-date or raise their profile. One example is to consider the currency of corporate policies and update or recirculate where needed.
15. During the review, we identified the following areas of notable practices at each Council:

Notable practice	Areas for improvement
ABC <ul style="list-style-type: none"> - Clear and financed approach for addressing fraud and corruption - Review of medium term financial plans - Good succession planning and officer development 	ABC <ul style="list-style-type: none"> - Limited benchmarking at corporate level - Broadening scope of risk management across the Council
MBC <ul style="list-style-type: none"> - Well managed transition to Committee governance in 2015/16 - Information governance approach 	MBC: <ul style="list-style-type: none"> - Counter fraud policies and approach - Limited benchmarking at corporate level - Setting in risk management into decision making and defining risk appetite
SBC <ul style="list-style-type: none"> - Collaborative working with external groups and youth forum - Risk and performance management - Actively seeks benchmarking, peer review and external accreditation for continuing corporate learning. 	SBC <ul style="list-style-type: none"> - Counter fraud policies and approach - Increasing Member training attendance
TWBC <ul style="list-style-type: none"> - Good external links. - Member skills gap analysis. - Project management approach. 	TWBC: <ul style="list-style-type: none"> - Counter fraud policies and approach - Service planning and operational risk management

16. Before preparing the 2016/17 Governance Statement, each council should consider a more detailed self-assessment against the Framework's key principles

II: Communications – Social Media

17. We conclude based on our audit work that there are **Strong** controls in place over the management and use of the Council's external and internal communications through the use of social media.
18. The Council has a clear Social Media Policy which is readily available to officers and members. The Council is making good use of its social media presence, for example in publicising stray dogs to the extent that stray dogs now has its own Facebook and Twitter accounts. We also noted that social media compliance is good, with sound controls and effective monitoring serving to minimise the risk of reputational damage by unauthorised posting.
19. We did however identify some areas where minor improvements can be made to further strengthen existing controls, including a need to review and update the social media risk register and an opportunity to consider better definition around aims and objectives of Social Media engagement.

III: Ground Maintenance

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

IV: CCTV

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

V: Council Tax – Valuation, Liability, Billing

30. We conclude based on our audit work that Council Tax has **Strong** controls in place over valuation, liability and billing.
31. Our review found only trivial changes to the Council Tax system we reviewed it in January 2015, meaning control design remains strong.
32. Our testing confirms controls on valuation, liability and billing work effectively. These controls work to ensure the information held on the Council Tax system is valid and to deliver accurate and timely annual billing.
33. We found the Valuation Office Agency (VOA) is experiencing delays at present which means there can be several weeks between creation or modification of a liability and a valuation that allows billing to begin. Although the Council has limited influence, it is using that influence with the VOA to ensure new and amended properties are reviewed and updated promptly.

VI: Property Income

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

VII: Data Protection

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

Planning Enforcement (Swale)

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

Audit Recommendations

44. Our approach to recommendations means at the end of each report we agree with management an action in response and a date for implementation. We then follow up recommendations individually when they fall due, compiling results together each quarter in a report to Senior Management.
45. Where we originally reported a **Weak** assurance rating, we also revisit this rating each quarter. Note that we have issued no **Poor** assurance rating reports at the Council. We consider whether management has made enough progress through fulfilling recommendations to resolve concerns behind the adverse assurance rating. When we believe management have made enough progress to materially minimise the risk, we alter our assurance rating to **Sound**. However we continue following up outstanding recommendations until completed.
46. During this period we have issued one report at weak assurance rating, on Planning Enforcement. This included two high priority recommendations, detailed below:

R1: Planning enforcement complaint files	Priority 2: High
<p>Implement quality standards for planning enforcement case files to ensure consistency in the completeness and integrity of files and evidence.</p> <p>Improving the information and evidence retained on planning enforcement complaint case files will ensure that all case information is recorded on Uniform; that there is comprehensive evidence that complaints have been adequately investigated and whether these investigations were completed in accordance with agreed service standards; that the outcomes / conclusions on complaints can be substantiated retrospectively and that case files are being closed in accordance with agreed procedures.</p> <p>Additionally introducing a document retention policy would ensure that planning enforcement documents are being retained in accordance with an agreed retention period.</p>	
Management Response	
<p>Agreed. A quality standard for planning enforcement case files will be incorporated into the revised Planning Enforcement procedures manual. This will incorporate how long planning enforcement case files should be retained for.</p> <p>The Development Manager has previously spoken to Mid Kent Legal Services to request that the Council's Document Retention Policy be updated to reflect that all Planning Enforcement case files should be retained for 10 years.</p>	
<p>Responsible officer: Development Management Manager</p>	<p>Implementation date: 1 April 2017</p>

R2: Evidence of enforcement action and compliance		Priority 2: High
Follow-up the outcomes of enforcement notices issued and ensure evidence is maintained to demonstrate compliance action has been taken.		
<p>Improving the evidence / records on planning enforcement case files of actions taken, visits completed and when compliance is achieved (or not) will ensure cases are managed more consistently in line with agreed procedures. This will also identify whether key stages of the process have not been completed. It will also provide more evidence that the Council is taking enforcement action where needed and that cases are being monitored to ensure that compliance is being achieved. It will also ensure that planning enforcement cases are only closed on final conclusion of the case.</p>		
Management Response		
<p>Agreed. Management instruction will be sent to the Planning Enforcement Officers setting out expectations in terms of completing and evidencing follow ups on enforcement notices issued. These expectations will also be incorporated into the revised Planning Enforcement Procedures manual.</p>		
Responsible officer: Development Management Manager	Implementation date: 1 November 2016	

47. We have highlighted these two as the most notable matters arising from our weak assurance rated report. The table below summarises all recommendations raised in this period. We raised no **critical** rated recommendations. We are pleased to note all recommendations raised by audit were accepted by management and we will track their implementation as they fall due.

Project and assurance rating	High	Med	Low	Advisory	Implementation Period
Communications: Str	0	0	2	1	Sep 16
Grounds Maintenance: So	0	0	3	1	Jul-Nov 16
CCTV: So	0	1	3	1	Sep – Dec 16
Council Tax: Str	0	0	1	1	Aug 16
Property Income: So	0	1	4	1	Sep 16 – Mar 17
Data Protection: So	0	3	3	1	Nov 16 – Jul 17
Planning Enforcement: W	2	5	3	1	Nov 16 –Apr 17
Totals	2	10	19	7	

48. Our most recent reporting considered recommendations due before 1 October 2016. So, the table below does not include progress on either of the Planning Enforcement recommendations above, but these will form part of our next follow up exercises. The table below summarises progress.

Project and original assurance rating (W/So/Str)	Agreed Actions	Falling due before 1/10/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Projects with actions completed during 2016/17					
Communications: Str	2	2	2	0	0
ICT Network Controls: Str	1	1	1	0	0
Learning & Develop: So	3	3	3	0	0
Waste Contract: Str	3	3	3	0	0
Disc. Housing Pay: So	4	4	4	0	0
Homelessness: So	2	2	2	0	0
Safeguarding: W	10	10	10	0	0
Council Tax: Str	1	1	1	0	0
Projects with actions to carry forward into the rest of 2016/17 and beyond					
Cemeteries: So	5	3	3	0	2
Corporate Projects: So	3	2	2	0	1
Performance Mgmt: So	5	5	tbc ²	tbc	tbc
Grounds Maint'nce: So	3	2	2	0	1
Freedom of Info: So	6	4	4	0	2
Property Income: So	5	1	1	0	4
Housing Services: So	2	1	1	0	1
CCTV: So	4	1	1	0	3
TOTAL	59	45	40	0	14
		76%	68%	0%	24%

49. Note the table above excludes reviews which did not feature recommendations for action (such as the *Good Governance* review). The table also excludes reviews issued before this report but where no recommendations were due in or before quarter 2 2016/17 (such as *Planning Enforcement*).
50. We reported previously to Members in our 2015/16 annual report that officers had made sufficient progress on the *Safeguarding* review to revise the assurance rating from **weak** to **sound**. During 2016/17 officers continued progress and have now implemented all recommendations.

² Awaiting completion of follow up work at time of writing. We will provide a verbal update to the Committee if we have matters of concern.

Corporate Governance

51. Corporate governance is the system of rules and practices that direct and control the Council.
52. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
53. We attend the Council's Information Governance Group and have representation on the Procurement Group. We also comment on other decisions and papers according to the Council's governance practices.
54. During the year we also undertook a specific review examining the Council's position for compliance with the new Code of Corporate Governance published by CIPFA/SOLACE in April 2016. We report the main conclusions of that review earlier in this report.

Counter Fraud & Corruption

55. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking direct work to assess and support the Council's arrangements.
56. The Cabinet Office is preparing a set of Counter Fraud Standards similar to the Public Sector Internal Audit Standards (PSIAS). Unlike the PSIAS, these standards will not be compulsory in local government. However they will represent a significant signal of 'best practice' for counter fraud arrangements in the broader public sector.
57. Once published, we will review the Counter Fraud Standards and use them as part of an exercise to refresh the breadth of the Council's counter fraud policies as requested by Council Management.
58. Policies to be refreshed include the overall Counter Fraud Strategy, plus approaches to tackling bribery, corruption, money laundering and whistleblowing. We expect to bring those policies to this Committee as a set sometime in the new year dependent on the timing of the Cabinet Office publishing its standards.

Investigations

59. We have undertaken no counter fraud or corruption investigations in the first half of 2016/17.

Whistle-blowing

60. Internal audit is one route for members of staff and others to raise concerns under the Council's whistleblowing policy. We received no matters arising under this policy in the first half of 2016/17.

National Fraud Initiative

61. The National Fraud Initiative (NFI) is a compulsory national exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Previously, the Audit Commission ran NFI but, following its abolition, responsibility passed to the Cabinet Office.
62. The NFI works on a two-year cycle which involves the release of matches (most recently in January 2015) for local authorities and others to look into. Each match represents a finding which could, potentially, point to a fraud or error but needs further investigation to confirm. The table below shows progress so far on matches from the 2015 release.

Dataset	Matches	Complete	In Progress	% Examined
Creditors	734	734	0	100%
Housing Benefit Claimants	1,294	1,223	67	95%
Insurance Claimants	5	5	0	100%
Payroll	170	170	0	100%
Council Tax SPD	1,409	1,409	0	100%
Total	3,612	3,541	67	98%

63. We have already reviewed all 'high priority' matches identified by the Cabinet Office (those viewed, from their experience, as being particularly likely to identify fraud or error). The remaining matches are lower priority but we will still examine them with the aim of completing the exercise before release of new data.
64. From review of the 3,541 matches completed so far we have identified **2** cases prosecuted as fraud. These two cases involved a total value of **£2,580**. In both cases the Council is recovering the money fraudulently claimed and one case resulted in a formal caution.

65. We also found **288** cases of error with a total value of **£110,182**. This is an average of £383 per error, or a return of £31.84 for every individual match examined.
66. The Cabinet Office plan to release the next set of matches in January 2017 and we are co-ordinating the Council's approach to collecting and uploading data. This work includes ensuring the Council publishes proper fair use notices so it can lawfully upload personal data.
67. In November 2016 the Cabinet Office published its [NFI National Report](#). The report summarises findings from the exercise across the UK and includes data submitted by the Council. The national picture it describes, across the areas relevant to the Council, we summarise in the table below:

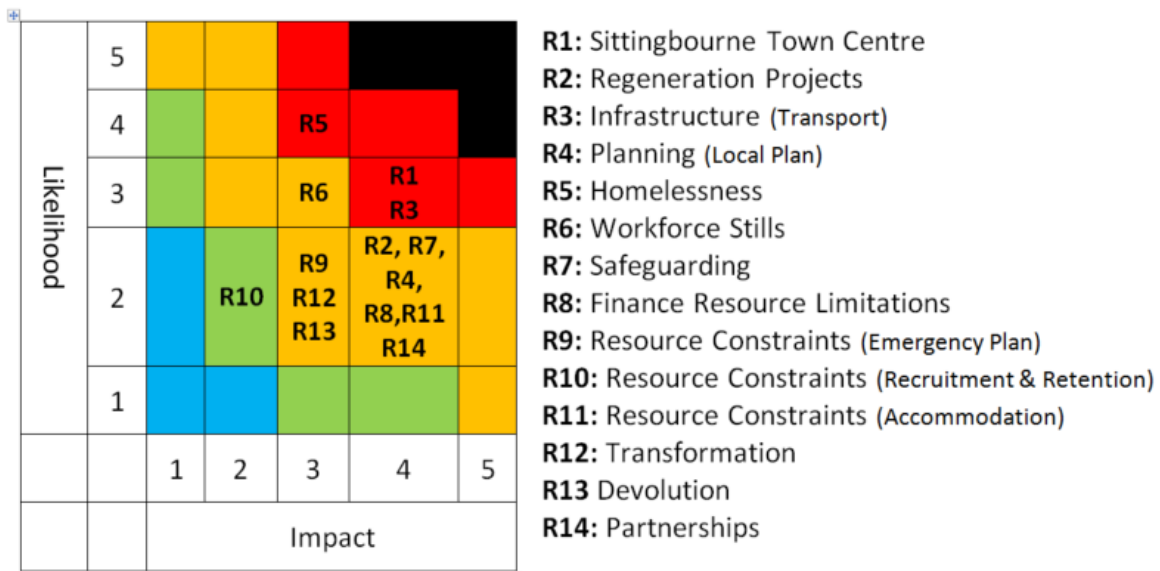
Dataset	Example match	# Outcomes	£ Recovered
Creditors	Trader submits duplicate invoice	3,448	£4.5m
HB Claimants	Failing to declare a change of circumstance	6,606	£39.2m
Payroll	Working while claiming sickness	109	£5.0m
Council Tax SPD	Failure to qualify as living with other adults	37,825	£37.4m
Total		47,988	£86.1m

Risk Management

68. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
69. The Council recognised the need to improve its risk management arrangements last year, and in May 2015 approved and adopted a refreshed risk management framework, incorporating detailed procedures and clearer guidance on how to define impact and likelihood levels for risk. Following that approval, we have been working with the Council to implement, embed and coordinate the effective running of the risk process.
70. The *comprehensive risk register* collates in one place, and in one format all of the Council's operational and corporate level risks. Since our last update to this Committee in June 2016 we have been meeting with risk owners across the Council and working with services to update the *comprehensive risk register* and to improve the quality of risk information available to the Council. A key part of this work has been to update and assess the Council's corporate level risks.
71. For the time being, in accordance with the framework, risk updates are being reported to Senior Management Team quarterly, with the last update going in October. This report included an update on the assessment of corporate level risks, along with an update of significant risks identified through operational risk assessments. However, in order to maintain effective management and oversight of risks, it is important that both Members and the Audit Committee are involved. We are currently working with Officers and Members on how best to progress the communication of risks at this level.
72. The risk management process is still being developed however there has been good progress to implement the updated risk management arrangements and enable the Council to better understand, manage and monitor risks. As this work progresses, we will hope to move to separate risk updates to Cabinet and Audit Committee to ensure that significant risks are being managed appropriately.
73. Further work planned this year includes working with the Council's Policy Team to integrate risk and service planning, working with SMT to formulate a risk appetite statement, and updating risk information and reporting across the Council.

Corporate Risk Profile

74. The risk matrix below shows the corporate level risk areas and plots them onto the risk matrix based on the impact and likelihood. The total risk score takes into account the action already being taken by the Council to address the risk (residual this score):



75. By definition, these risks are broader and are directly linked to the Council’s overall objectives to be a Borough, Place and Council to be proud of. We will continue to take a lead with regards to risk management for the Council and work to continue to embed the processes and procedures over the remaining year.

Mid Kent Audit Service Update

Team Update

76. In the first half of 2016/17 we bade farewell to one of our trainee auditors who left the partnership to change career into healthcare. However, following a full recruitment exercise drawing 37 applications we appointed Louise Taylor, previously our team administrator, to the Trainee position. Louise originally joined the team as part time administrator in November 2015 and has integrated well and shown great enthusiasm for continuing her career in audit. She will now work full-time as a trainee, beginning professional qualifications with the Institute of Internal Audit.
77. As a result, the Team Administrator role has fallen vacant. Previously we could not join in the Council's apprentice scheme as none of the roles covered audit responsibilities; however we can shape our administrator role to meet the scheme. Early in November Shahbaz Rehman joined as our audit administrator and will work with us as an apprentice while completing a qualification at Mid Kent College.

Quality Assurance and Improvement

78. We continue to develop our Quality and Improvement Plan including, for 2016/17 a revision and refresh to our audit manual. See appendix A for an extract, summarising our audit approach. Our manual and approach is now on a par, or even ahead of, leading practice in the public sector. Leading on from this CIPFA invited the Head of Audit Partnership to prepare and present national training to around 50 other local authority audit services on Insights into Internal Audit Professional Standards.
79. We have also kept ahead of changes to Audit Standards through the role the Head of Audit Partnership has as Local Government Representative on the Internal Audit Standards Advisory Board (IASAB). The IASAB is the body that recommends changes applicable across the UK public sector. The forthcoming changes to Standards include those consulted by the Global Institute for Internal Audit in autumn 2016. Although the revisions will not apply in the public sector until 1 April 2017 (subject to consultation and agreement with devolved governments) we already show conformance. This includes with Standards 1320 and 2060 which the IIA has adapted to extend and clarify matters for reporting to Members.

Standard 1320: Reporting on the Quality Assurance and Improvement Plan

Reporting Requirement	Comments
Scope and frequency of internal and external assessments	We gained an external quality assessment considering conformance across the Public Sector Internal Audit Standards in April 2015. We will seek another before April 2020. We undertake a full internal assessment against the Standards each year.
Conclusions of assessors	The IIA decided we fully conform with standards. Our self-assessments since conclude we have upheld conformance.
Corrective action plans	Not applicable.
Qualifications and independence of assessors	The IIA team all held suitable professional qualifications and experience. They were also fully independent of the audit service and the authorities.

Standard 2060: Reporting To The Board

Reporting Requirement	Comments
The Audit Charter	Reported in March 2016. We will consider the need for a revision as part of our 2017/18 planning in March 2017.
Independence of internal audit	We can confirm the continued utility of independence safeguards described in the Charter. The internal audit service works independently and reports free from any inappropriate pressure or influence from management.
Audit Plan and Progress	Reported earlier in this document.
Resource requirements	Reported in our 2016/17 plan in March 2016. We continue to receive strong support from the authorities who provide sufficient resources to complete plans agreed by Members.
Results of audit	Reported earlier in this document.
Conformance with the Standards	As above, we work in full conformance with the Standards.
Risks accepted by management that may be unacceptable to the Council	We are aware of no risks currently accepted by management that we feel would be unacceptable to Members. See the section in this report on Risk Management for information on the significant risks recognised by management.

Performance

80. Aside from progress against our audit plan we report on several specific performance measures designed to oversee the quality of audit service we deliver to partner authorities. The Audit Partnership Board (with Mark Radford, Director of Corporate Services representing Swale) considers these measures at each quarterly meeting. Our performance also features in reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).

81. The table below shows our most recent outturn on these performance measures. Note that data is for performance across the partnership rather than council specific (but there are no significant variations from authority to authority).

Measure	2015/16 Outturn	2016/17 Target	Q2 16/17 Outturn
Cost per audit day	On target	n/a	5% ahead of target
% projects completed within budgeted days	60%	75%	75%
% of chargeable days	63%	70%	74%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within deadlines	76%	80%	88%
% draft reports within ten days of fieldwork end	68%	80%	81%
Satisfaction with assurance (score /4)	3.2	3.4	3.7
Final reports presented within 5 days of closing	92%	90%	93%
Satisfaction with auditor conduct (score /4)	3.5	3.75	3.86
Recommendations implemented as agreed	98%	95%	89%
Exam success	100%	75%	75%
Satisfaction with auditor skill (score /4)	3.2	3.4	3.7

82. We continue on a positive trend for performance across the measures, meeting all but one target in Quarter 2. Notably, this continues the strong upward performance in completing projects to budget (from 18% in 2013/14, rising to 47% in 2014/15 and now at 75%) and to agreed deadlines (up from 41% in 2014/15 to 88% now). We have achieved this result while keeping costs below target per audit day, enhancing audit quality and improving satisfaction scores measured through our post-audit surveys.

83. As always, we could not have achieved this performance without the dedicated expert support of the entire audit team, and the management of Mid Kent Audit offer profound thanks for their skill and hard work. We also thank the Members and Officers who continue to inform, support and guide our work.

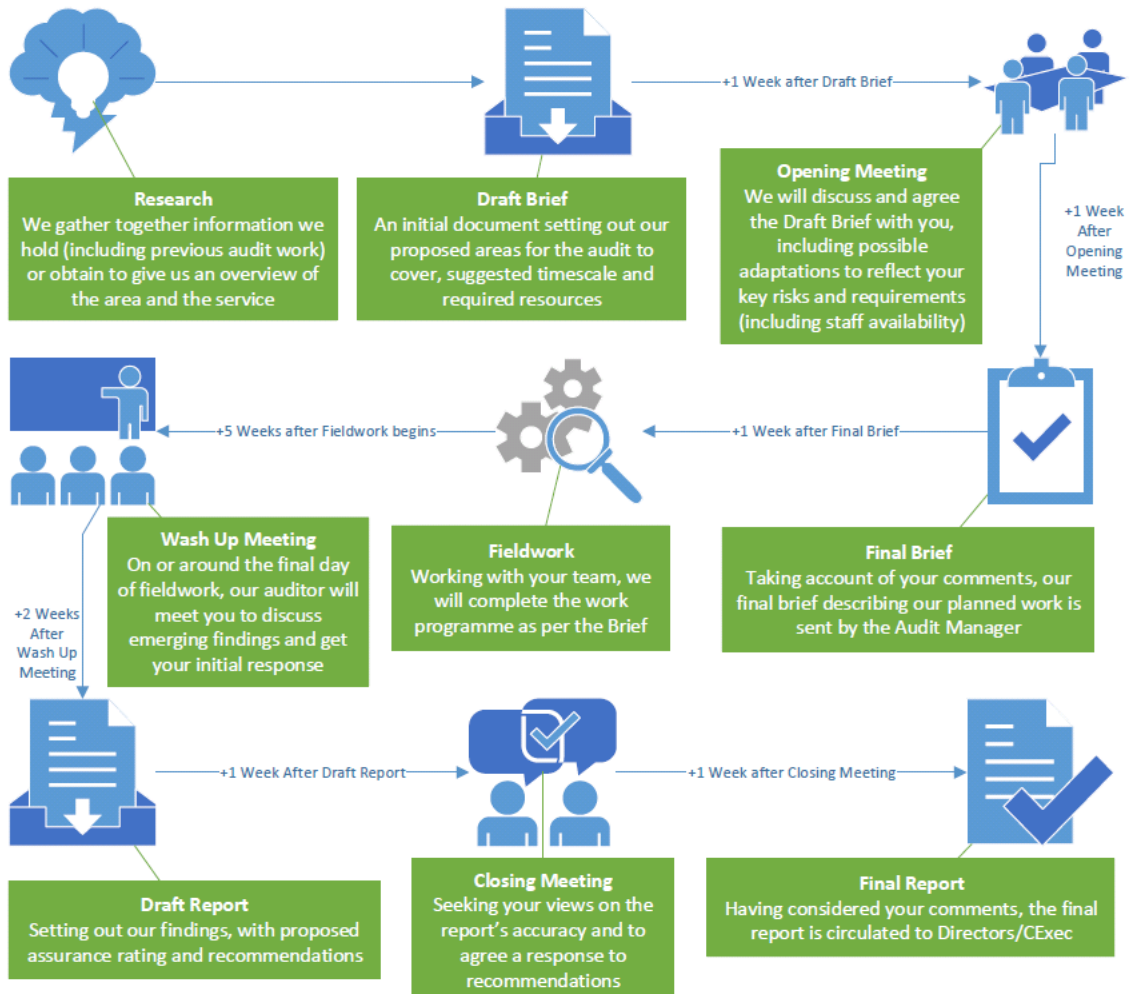
Mid Kent Audit

MKIP: April 2016

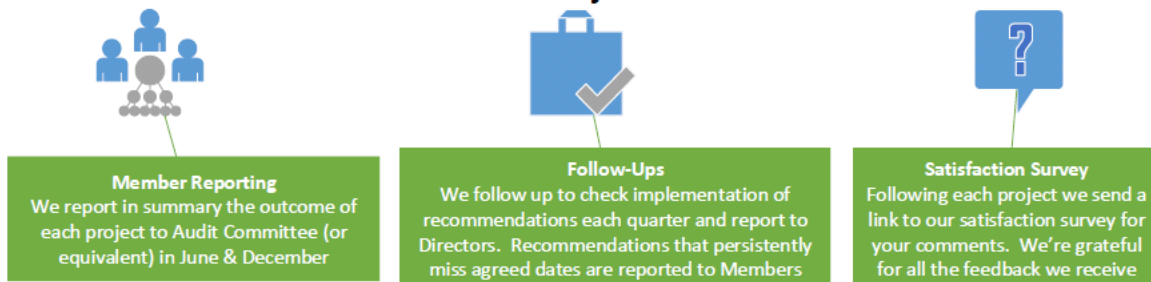
Audit Project Process Map

There is no single set audit process or timeline; in reality we can and do adapt to circumstances as suits the service and its objectives. However, we hope it is helpful to set out a 'typical' approach to give you an idea of the key stages and possible timings, especially if you want to link in discussion of findings to your service management meetings. This 'typical' approach runs from brief to final report in 12 weeks.

We will discuss and agree a detailed timeline with you when finalising the audit brief.



Post Audit Project Processes



SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme

2016/17



Statement of Purpose:

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

Audit Committee Members:

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

	<p>Councillor Angela Harrison Party: Labour Ward: Sheerness Phone: 01795 665029 Email: angelaharrison@swale.gov.uk</p>		<p>Councillor Samuel Koffie-Williams Party: Conservative Ward: Murston Phone: 07484274235 Email: samuelkwilliams@swale.gov.uk</p>
	<p>Councillor Peter Marchington Party: Conservative Ward: Queenborough and Halfway Phone: 01795 661960 (evenings only) Email: petermarchington@hotmail.co.uk</p>		

Audit Committee Terms of Reference

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

Work Programme:

Date of Meeting	Title of Report	Key Officer Contact
<i>8 June 2016</i>	Internal Audit Annual Report 2015/16	Rich Clarke
	Annual Governance Statement	Nick Vickers
	Audit Committee Annual Report	Rich Clarke
	Fee Letter 2016/17	External Audit
	Future Appointment of External Auditors	Nick Vickers
	2015/16 Audit Plan – External Audit	External Audit
	Audit Committee Work Programme 2016/17	Democratic Services
<i>14 September 2016</i>	Annual Financial Report 2015/16 and Audit Findings Report	Nick Vickers
	Annual Treasury Management Report 2015/16	Nick Vickers
	External Auditor Appointment	Nick Vickers
	Audit Committee Work Programme	Democratic Services
<i>30 November 2016</i>	Treasury Management Half Year Review	Nick Vickers
	Annual Audit Letter	External Audit
	Audit Committee Update	External Audit
	Internal Audit Interim Report	Rich Clarke

	Audit Committee Work Programme	Democratic Services
<i>8 March 2017</i>	Internal Audit Plan 2016/17	Rich Clarke
	Strategic Risk Register and Action Plans	Rich Clarke
	Certification of Claims and Returns	External Audit
	Audit Committee Work Programme	Democratic Services

DRAFT

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