

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 28 November 2018

Time: 7.00pm

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

Membership:

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

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. Minutes

To approve the Minutes of the Meeting held on 19 September 2018 (Minute Nos. 213 - 220) as a correct record.

4. Declarations of Interest

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

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

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

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

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

5. Member training and development - Risk Management

Part A Report for recommendation to Council

- | | | |
|----|--------------------------------------|--------|
| 6. | Six Month Treasury Management Review | 1 - 14 |
|----|--------------------------------------|--------|

Part B Reports for decision by the Committee

- | | | |
|-----|---|---------|
| 7. | Internal Audit Charter | 15 - 30 |
| 8. | Work Plan (including terms of reference and professional updates) | 31 - 36 |
| 9. | Internal Audit Interim Report | 37 - 66 |
| 10. | External audit update | 67 - 78 |
| 11. | Mid Kent Services Fraud and Compliance | 79 - 84 |

Issued on Tuesday, 20 November 2018

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

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

This page is intentionally left blank

Audit Committee		Agenda Item: 6
Meeting Date	28 November 2018	
Report Title	Treasury Management Half Year Report 2018/19	
Cabinet Member	Duncan Dewar-Whalley, Cabinet Member for Finance & Performance	
SMT Lead	Nick Vickers, Chief Financial Officer	
Head of Service	Nick Vickers, Chief Financial Officer	
Lead Officer	Phil Wilson, Financial Services Manager	
Key Decision	No	
Classification	Open	
Recommendations	<ol style="list-style-type: none"> 1. To note the performance information in this report. 2. To approve the prudential and treasury management indicators within the report. 	

1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2018/19, including compliance with treasury limits and Prudential and Treasury Performance Indicators. The report will go to Council on 9 January 2019.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2011 Edition, which requires the Council to approve treasury management semi-annual and annual reports.
- 1.3 The Council's treasury management strategy for 2018/19 was approved at a meeting on 21 February 2018. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 1.4 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. In England the Ministry for Housing, Communities and Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.
- 1.5 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury

management and non-treasury investments. The Council will be producing its Capital Strategy for approval by full Council in February 2019.

2. Background

Market Environment

- 2.1 UK Consumer Price Inflation (CPI) for August rose to 2.7% per annum, above the consensus forecast and that of the Bank of England's in its August Inflation Report, as the effects of sterling's large depreciation in 2016 began to fade.
- 2.2 The Bank of England made no change to monetary policy at its meetings in May and June, this was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. Since then, the Bank of England's Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon.
- 2.3 With regard to the big four UK banks - Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank, the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) is progressing and will need to be completed by the end of 2018. The Council's treasury advisor Arlingclose will henceforth provide ratings which are specific to deposits, rather than provide general issuer credit ratings.

Borrowing

- 2.4 The Council continues to be debt free. Council has agreed to borrow up to £28 to cover Sittingbourne Town Centre and an additional £30m subject to business cases to be agreed by 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 also internally borrow to minimise debt charge costs.

Investments

- 2.5 The counterparties agreed by Cabinet and Council earlier this year when the 2018/19 Treasury Strategy was approved are:

Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m

Close Brothers unsecured deposits	£1.5m
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice) Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian Bank Ltd, Westpac Banking Corp Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	£1.5m limit per bank, £3m country limit
Money Market Funds	£3m each
Cash Plus Funds and Short Dated Bond Funds	£3m each
Multi Asset Income Funds	£3m each
CCLA LAMIT Local Authority Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bond Funds and Corporate Bonds	£3m in aggregate
Non treasury investments	To be agreed on a case by case basis
Covered Bonds	£9m in aggregate with £3m limit per bank
Absolute return funds	£3m in aggregate
Equity income funds	£3m in aggregate

- 2.6 Investments held at 30 September 2018 can be found in Appendix I.
- 2.7 The Council did not need to borrow to cover cash flow purposes in the period.
- 2.8 Interest income received for the first half of 2018/19 was £133,580.
- 2.9 For the six months to 30 September 2018, the Council maintained an average sum invested of £27.757m compared with an original budget of £21.061m, and an average rate of return of 0.96% compared to a budget of 0.47%.
- 2.10 The results for the six months to 30 September 2018 show that the Council achieved 0.52% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.38% average return rate above the average Bank of England Base Rate.
- 2.11 The Council has £3m invested in an externally managed property fund which is the CCLA fund which generated an average total return of 4.34%, comprising a £65k income return. Since this fund has no defined maturity date,

but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

2.12 The Council can confirm that it has complied with its Prudential Indicators for 2018/19 which were set in February 2018 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.

2.13 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

3.1 No changes are proposed at this stage.

4. Alternative Options

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

5. Consultation Undertaken

5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	Need to comply with MHCLG guidance on treasury management.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Sustainability	Not relevant to this report
Health and Wellbeing	Not relevant to this report
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	Not relevant to this report

Issue	Implications
Privacy and Data Protection	Not relevant to this report

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 2018
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments as at 30 September 2018

Counterparty	Long-Term Rating	Balance Invested at 30 September 2018 £'000
CCLA Property Fund		3,000
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAAm	3,000
Deutsche Money Market Fund	AAAm	2,400
Goldman Sachs Money Market Fund	AAAm	3,000
Black Rock Money Market Fund	AAAm	3,000
BNP Paribas Money Market Fund	AAAm	3,000
Amundi Money Market Fund	AAAm	3,000
Morgan Stanley Money Market Fund	AAAm	379
SSGA Money Market Fund	AAAm	3,000
Total Money Market Funds		20,779
Total		23,779

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

Investment Activity in 2018/19

Investments	Balance on 01/04/2018 £'000	Investments Made £'000	Investments Repaid £'000	Balance on 30/09/2018 £'000	Average Rate %
Short Term Investments and Cash and Cash Equivalents	16,815	90,787	(86,823)	20,779	0.55
Long Term Investments	3,000	0	0	3,000	4.34
Total Investments	19,815	90,787	(86,823)	23,779	
Increase in Investments				3,964	

Investments as at 30 September 2018**Non-Treasury Investments**

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Council holds £3m of such investments in directly owned property.

These investments are expected to generate £0.2m of investment income for the Council after taking account of direct costs, representing a rate of return of 5.7%.

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	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
	£'000	£'000	£'000	£'000
Gross CFR	12,511	41,572	41,444	40,299
Less: Other Long Term Liabilities	(140)	(41)	(24)	(19)
Borrowing CFR	12,371	41,531	41,420	40,280
Less: Existing Profile of Borrowing	0	0	0	0
Cumulative Maximum External Borrowing Requirement.	12,371	41,531	41,420	40,280

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

Prudential and Treasury Management Indicators

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	2017/18 Actual £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Total Expenditure	11,491	33,717	2,937	2,018
Capital receipts	70	0	0	0
Grants and other contributions	2,904	1,765	1,765	1,765
Reserves	241	118	58	228
Internal borrowing	8,276	5,312	1,114	25
External borrowing	0	26,522	0	0
Total Financing	11,491	33,717	2,937	2,018

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	2017/18 Actual %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
Total	0.04	7.01	6.63	5.66

Prudential and Treasury Management Indicators

5. 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 31/03/2018	£'000
Borrowing	0
Other Long-term Liabilities	140
Total	140

6. 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 15 February 2017, Members approved an additional £30m borrowing to allow for funding to be provided up a maximum borrowing of £65m (minute 1197/02/2017).

Authorised Limit for External Debt	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	60,000	60,000	60,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	62,000	62,000	62,000

Prudential and Treasury Management Indicators

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	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	41	24	19
Total Debt	55,041	55,024	55,019

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2018.

7. 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 30/09/18	2018/19 Approved Limit	2019/20 Approved Limit	2020/21 Approved Limit
Interest on fixed rate borrowing	0%	100%	100%	100%
Interest on fixed rate investments	-0%	-100%	-100%	-100%
Upper Limit for Fixed Interest Rate Exposure	-0%	0%	0%	0%
Interest on variable rate borrowing	0%	100%	100%	100%
Interest on variable rate investments	-100%	-100%	-100%	-100%
Upper Limit for Variable Interest Rate Exposure	-100%	0%	0%	0%

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

Prudential and Treasury Management Indicators

8. 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 30/09/18 %	Lower Limit for 2018/19 %	Upper Limit for 2018/19 %	Complied
Under 12 months	0	0	100	√
12 months and within 24 months	0	0	100	√
24 months and within 5 years	0	0	100	√
5 years and within 10 years	0	0	100	√
10 years and above	0	0	100	√

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during the six months to 30 September 2018.

9. Credit Risk

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

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

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

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

Prudential and Treasury Management Indicators

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

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

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

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

Total Principal Sums Invested Over 364 Days	2018/19 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied	✓

11. Investment Benchmarking for the six months to 30 September 2018

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average 7 day LIBID Rate
0.96%	0.47%	0.58%	0.44%

This page is intentionally left blank

Audit Committee Meeting	
Meeting Date	28 November 2018
Report Title	Internal Audit Charter
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer	Rich Clarke, Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	1. To approve the Internal Audit Charter.

1 Purpose of Report and Executive Summary

- 1.1 We provide this report to allow the Committee to consider and approve the revised Internal Audit Charter.
- 1.2 An Audit Charter is a requirement of Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the purpose, authority and responsibility of the service. This Committee last considered and approved our Charter in March 2016.

2 Background

- 2.1 In the main, the updates to the Charter in 2018 are simply taking the opportunity to refresh the document. This includes some simplification of wording and removal of audit jargon, as well as re-ordering some sections to make the document more readable and updating job titles.
- 2.2 Substantive changes are limited but noted below:
 - Addition of a glossary of terms to clarify how particular terms in the Standards apply in a Swale BC context.
 - Following further guidance published by the Institute of Internal Audit (IIA) in 2016, the Charter now has more detail on the international standards and principles that apply to internal audit.
 - Clarifying the role of the Audit Committee as a key consultee before commissioning external quality assessment.
 - Specifying the need for annual review.

3 Proposals

- 3.1 We propose the Audit Committee approve the internal audit charter.

4 Alternative Options

- 4.1 We do not propose any alternative action as a Charter is a Standards requirement. However we are of course happy to consider comments to refine the specifics of the Charter.

5 Consultation Undertaken or Proposed

- 5.1 The Charter shows limited change from earlier approved versions, as detailed above.

6 Implications

Issue	Implications
Corporate Plan	Internal audit and its findings provide assurance to Members on the effectiveness of the Council's governance.
Financial, Resource and Property	The Charter commits the authority to continue ensuring internal audit has adequate resources. We will discuss the specifics of this year on year as part of the Council's standard budget setting processes.
Legal and Statutory	Having an operative Charter contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.
Crime and Disorder	The report makes no recommendations that impact crime and disorder.
Environmental Sustainability	The report makes no recommendations that impact environmental sustainability.
Health and Wellbeing	The report makes no recommendations that impact health and well being.
Risk Mgmt/ Health & Safety	The report makes no recommendations that impact risk management or health and safety.
Equality and Diversity	The report makes no recommendations that impact equality and diversity.
Privacy and Data Protection	The audit service collects no data directly from the public. Any data we collect during our reviews we hold in line with the Council's applicable policies.

7 Appendices

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

- Appendix I: Internal Audit Charter

8 Background Papers

None applicable.

This page is intentionally left blank

Internal Audit Charter

Swale Borough Council



MID KENT AUDIT

Internal audit charter

1. The Internal Audit Charter (the 'Charter') is the formal document that defines internal audit's purpose, authority and responsibility at Swale Borough Council (the 'Council'). The Charter shows the Audit Partnership's position within the authority, including the nature of the Head of Audit Partnership's reporting relationships. The Charter defines the scope of audit work and approves the access to records, personnel and physical properties relevant to its completion.
2. Final approval of the Charter remains with the Audit Committee. The Head of Audit Partnership will, in consultation with Senior Management, review the Charter each year and recommend to the Audit Committee any necessary updates.

Mission

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

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

Standards of internal audit practice

4. This Charter recognises the compulsory nature of the IIA definition of Internal Auditing, Code of Ethics, Public Sector Internal Audit Standards (the "Standards") and the International Professional Practices Framework (the "Framework"). The diagram on the next page sets out the Framework and the Core Principles.
5. The Audit Partnership complies with the Framework in full.

MID KENT AUDIT



Framework Core Principles

1. Demonstrates integrity
2. Demonstrates competence & due professional care
3. Is objective and free from undue influence
4. Aligns with Council's strategies, objectives & risks
5. Is appropriately positioned and adequately resourced
6. Demonstrates quality and continuous improvement
7. Communicates effectively
8. Provides risk-based assurance
9. Is insightful, proactive and future-focused
10. Promotes organisational improvement

Scope of work

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

Internal Control

7. Internal control is how the Council assures achievement of its objectives. It includes ensuring effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial governance.

Corporate Governance

8. Corporate governance is the set of rules, practices and processes that direct and control the Council.

Risk Management

9. Risk management is how the Council identifies, quantifies and manages the risks it faces in trying to achieve its objectives.
10. Besides those three core subjects the Audit Partnership may, subject to specific arrangements, undertake engagements in the matters of counter fraud, risk management or consultancy advice as discussed elsewhere in this Charter.

MID KENT AUDIT

Authority of internal audit

11. Internal Audit is a statutory service as defined within the Accounts and Audit Regulations 2015 (the 'Regulations'). These demand the Council evaluates the effectiveness of its risk management, control and governance, considering the Standards.
12. Drawing authority from those Regulations and this Charter, the Audit Partnership has free and unrestricted capacity to plan and undertake audit work judged necessary to fulfil its scope.
13. To enable full performance of its duties, the Head of Audit Partnership and his team:
 - Have direct access to the Audit Committee Chairman;
 - Have unrestricted access to all works, records, property and personnel;
 - Can get help where necessary from Council officers and contractors involved in subject of audit engagements.
14. The Head of Audit Partnership and his team may not perform any of the following, except where directly related to running the Audit Partnership:
 - Perform duties for the Council beyond this Charter's scope;
 - Begin or approve accounting transactions, and
 - Direct the work of any Council employee.

MID KENT AUDIT

Responsibility

15. The Head of Audit Partnership and his team must always undertake their work in line with the Framework which applies across the global practice of internal audit. This includes, notably, the Code of Ethics for Internal Audit. Also, members of the team who hold membership of professional bodies will comply with the relevant demands of that organisation, including relevant ethical codes. Undertaking work under the Standards will include:

- Developing a flexible risk-based audit strategy and annual plan. We will develop strategies and plans in consultation with senior management and present each year to the Audit Committee for review and approval. We will also invite the Audit Committee to review and approve significant changes to the plan;
- Tracking the status of agreed management actions and providing regular updates to the Audit Committee, including highlighting items of significant risk;
- Issuing period reports to senior management and the Audit Committee summarising results of internal audit work;
- Continuing communication with the Council's external auditors and other assurance providers to seek efficient assurance coverage;
- Communicating regularly with relevant interested parties on progress of the Audit Partnership, its work and findings; and
- Keeping Senior Management up-to-date with Audit Partnership performance.

Reporting lines

16. The Head of Audit Partnership has responsibility for day-to-day management of the Audit Partnership. The Head of Audit Partnership reports to:

- The Director of Mid Kent Services (an employee of Maidstone Borough Council) as his line manager.
- The Chief Finance Officer for matters related to audit work at the Council as a representative of Senior Management.
- The Audit Committee for matters related to audit work at the Council. This line exists as the Audit Committee are 'those charged with governance'.

MID KENT AUDIT

17. The Head of Audit Partnership also has a direct right of access to other Senior Management and Members if needed.
18. If the Head of Audit Partnership is not satisfied with the response of Management or officers in supporting audit work he will highlight this first with Senior Management. If the matter remains unresolved the Head of Audit Partnership will raise this with the Audit Committee.

Independence and objectivity

19. The Audit Partnership is free from interference in deciding the scope and nature of its work and communicating results. The Head of Audit Partnership will comment on and affirm the independence and objectivity of the service in individual reports and, at least yearly, in summary reports to the Audit Committee. The summary reports will consider and report separately to the Committee on each part of the Audit Partnership's work.

Accountability

20. The Head of Audit Partnership, in performing his duties, will be accountable to the Audit Committee and Senior Management. This will include providing an annual Head of Audit Opinion as well as periodic reporting on significant issues and audit findings.

Management responsibilities

21. To be effective, the Audit Partnership needs full cooperation of senior management. In approval of this Charter the Audit Committee and Senior Management direct officers to cooperate with the Audit Partnership in the delivery of the service. This includes, for example:
 - Agreeing suitable briefs for audit work;
 - Acting as audit sponsors;
 - Providing access to suitable records, personnel and information systems;
 - responding to draft reports, and
 - Completing management actions in line with agreed timescales.

MID KENT AUDIT

22. Senior Management also undertakes to keep the Audit Partnership abreast of significant proposed changes. As well as newly identified significant risks and all suspected or detected fraud, corruption or impropriety.
23. Senior Management will also ensure the Audit Partnership has access to enough resources to fulfil the audit plan as directed by the Audit Committee. Responsibility for arranging and deploying resources to fulfil the plan rests with the Head of Audit Partnership.

Other Work

Consultancy

24. The Standards allow that Internal Audit work may sometimes be more usefully focused towards providing advice rather than assurance. Where suitable, the service may act as consultants by giving advice, providing that:
 - The objectives of the work concern governance, risk management or internal control;
 - A member of Senior Management has approved the work;
 - The service has the right skills, experience and available capacity, and
 - The Audit Partnership's involvement will not set up a conflict of interest, compromise its independence (in appearance or fact) and will not involve assuming a management role in providing advice.
25. The Head of Audit Partnership is responsible for reviewing all proposals for work against these criteria and for making the final decision on acceptance. We will agree the specific role of the Audit Partnership in any work with the sponsor. We will also document the role within the work plan and report to the Audit Committee at the next opportunity.
26. For significant proposals, the Head of Audit Partnership will consult the Chair of the Audit Committee before accepting the work. We define 'significant proposals' as those demanding changes to the agreed audit plan beyond using any otherwise unallocated consultancy time. The Head of Audit Partnership will also consult the Chair of the Audit Committee before accepting any work that, in his view, has significant strategic importance to the Council.

MID KENT AUDIT

Risk Management

27. The IIA position paper on *The Role of Internal Auditing in Enterprise-Wide Risk Management* guides the Audit Partnership's role in risk management. The Audit Partnership will not undertake roles defined as inappropriate by that guidance.
28. The position paper lists the following as legitimate internal audit roles with safeguards:
- Coordinating risk management work;
 - Consolidated risk reporting;
 - Developing a risk approach for approval and its later maintenance;
 - Helping identification and evaluation of risks, and
 - Coaching management in responding to risks.
29. The Council's *Risk Management Strategy* allows for the Audit Partnership to undertake all of those roles, providing safeguards are in place and agreed through the Audit Charter. The safeguards include:
- Internal separation of duties within the Audit Partnership;
 - Time commitment to risk management approved each year by the Audit Committee;
 - Overall responsibility for approving the risk management approach remaining with the Audit Committee acting on the advice of the Council's Senior Management.
30. The Audit Committee also keeps its constitutional role of conducting its own assessments on the effectiveness of the Council's risk management approach which may, if wanted, also include independent review.
31. Although not a part of the Council's internal controls, the Audit Committee may also draw assurance from any work completed by the Council's external auditors in completing their work supporting the Value for Money conclusion.

Counter Fraud

32. The Audit Partnership's role on Counter Fraud will follow the Council's *Counter Fraud Strategy* and with the time commitment approved by the Audit Committee in the Annual Audit Plan.

MID KENT AUDIT

Major Projects

33. Senior Management will keep the Audit Partnership up-to-date with major projects and their progress through continuing discussion. The Audit Partnership's response to major projects will be proportionate to the risk judged when completing audit planning. Where a project team seeks advice or further support from Internal Audit, we will treat that proposal as one for consultancy support as described in the *Consultancy* section of this Charter.

Relationships

34. The Head of Audit Partnership and the audit team hold a wide range of relationships whose quality is important in supporting the effective delivery of the audit service.

Relationships with management

35. The Audit Partnership will preserve effective relationships with managers at the Council. This will include consulting on audit plans both across the Council and for individual projects. We agree audit work timing with project sponsors.

Relationships with external auditors and regulators

36. The Audit Partnership and Grant Thornton LLP have a settled and sound working relationship described in more detail within the *Internal/External Audit Protocol* presented to the Audit Committee in March 2014. We will continue to rely and draw from each other's work subject to the limits and duties determined by our respective responsibilities and professional standards. This enables evaluation and review of the Council's controls leading to repeat work only where necessary to fulfil audit standards (internal or external audit). The Audit Partnership and Grant Thornton LLP meet regularly and share plans and reports.
37. The Audit Partnership will also take account of the results and reports from any other external inspections or reviews when planning and undertaking audit work. Where suitable the Head of Audit Partnership or properly delegated representative will represent the service in consultation and discussion with external agencies, inspectors or regulators.

MID KENT AUDIT

Relationships with Members

38. The Head of Audit Partnership will be the first point of contact for Members, in particular members of the Audit Committee. However, we place great store in gaining and preserving an effective working relationship with Members and so will foster good contacts throughout the Audit Partnership as fitting.
39. The Head of Audit Partnership will have the opportunity to meet separately (without other officers present) with the Chair of the Audit Committee and other Members if wished.

Quality assurance

40. The Standards demand that the audit partnership maintains a quality assurance and improvement programme. For the Audit Partnership, that programme incorporates both internal and external parts.

Internal assurance

41. Audit engagements are subject to review by management before completion. These reviews seek to ensure that work undertaken is consistent with the Standards, consistent with the risks associated with the subject under review and that conclusions follow the detailed work undertaken. The Audit Partnership varies the range and scope of reviewers to help uphold consistency and support learning within the service.

External assurance

42. An external assessment must take place at least once every five years by a qualified, independent assessor from outside the organisation. The Audit Partnership's most recent such assessment was from by the Institute of Internal Auditors in spring 2015, with results reported to the Audit Committee. The Head of Audit Partnership will keep the need for external assurance under review and discuss choices with Senior Management and the Audit Committee as the need arises.
43. We will consult the Audit Committee before commissioning a full external quality assessment.

MID KENT AUDIT

This Charter is authorised within Swale Borough Council:

Chief Finance Officer: Nick Vickers

Audit Committee Chairman: Councillor Nigel Kay

With the agreement of:

Head of Audit Partnership: Rich Clarke

Agreed by Audit Committee: November 2018

Next Review required: Annually

MID KENT AUDIT

Glossary of Terms

Term in Standards	Term in Charter	Further Notes
Chief Audit Executive	Head of Audit Partnership	Includes others who may act in his role,, with his express delegated authority. The Head of Audit Partnership has the pronouns 'he and his' in this document because of the current incumbent in the role but duties and responsibilities would similarly fall on his successors.
Board	Audit Committee	The <i>Audit Committee</i> in Swale meets the Standards definition of the highest level body charged with responsibility to oversee governance.
Consulting Services	Other Work	Includes all extra services delivered by the audit partnership that do not stem from the risk analysis that underpins the Audit Plan.
Internal Audit Activity	The Audit Partnership	The Council's internal audit service is provided by Mid Kent Audit, working with Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils.
Senior Management	Senior Management	The Chief Executive and Directors of Swale Borough Council
Management	Management	People appointed as Heads of Service or Managers by Swale Borough Council, or acting in this role with proper delegated authority

Draft Report from Audit Committee to General Purposes Committee	
Meeting Date	28 November 2018
Report Title	Audit Committee Terms of Reference
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Nick Vickers, Chief Financial Officer
Lead Officer	Nick Vickers Chief Financial Officer
Classification	Open
Recommendations	1. To recommend to General Purposes Committee revisions to the Audit Committee's Terms of Reference.

1 Purpose of Report and Executive Summary

- 1.1 On taking over as Chairman of the Audit Committee Cllr Kay asked for a review of the Terms of Reference of the Committee. This report is a draft for Audit Committee to consider prior to submission to General Purposes Committee and then Council.

2 Background

Terms of Reference

- 2.1 The Terms of Reference for the Committee are set by Council. The current Terms of Reference of the Committee and those of the other Mid Kent Councils are shown in Appendix I. Constitutional arrangements are quite different from the four Councils and the Terms of Reference are written in very different ways..
- 2.2 Members are asked to agree the following with amendments shown in bold:

Consider the effectiveness of the authority's risk management arrangements, the control environment and associated Anti-fraud and anti-corruption arrangements.

*Seek assurances that action is being taken on risk-related issues identified by **Internal and External audit.***

Maintain oversight of the Council's Treasury Strategy and receive six monthly monitoring reports prior to submission to Council.

Agree the Annual Governance Statement.

Approve (but not direct) Internal Audit's strategy and Annual Audit Plan and monitor performance against them.

Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.

*Receive the annual report of the **Head of Audit Partnership**.*

Consider the reports of External Audit.

Ensure that there are effective relationships between External and Internal audit, and other relevant bodies, and that the value of the audit process is actively promoted.

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.

Approve the Annual Statement of Accounts.

Present an annual report to the Executive on exceptions and highlights throughout the year.

3 Proposals

- 3.1 Recommendations are made to General Purposes Committee and then Council on amended Terms of Reference.

4 Alternative Options

- 4.1 The report addresses clarification issues in relation to the role of the Committee and the discharge of its duties.

5 Consultation Undertaken or Proposed

- 5.1 Research has been undertaken on how similar Committees operate in other Councils and the Head of Audit Partnership and Chief Financial Officer can supplement this from their experience of other Councils. The Chairman is also engaging with other Chairmen of Audit Committees.

6 Implications

Issue	Implications
-------	--------------

Corporate Plan	Supports the priority of being a Council to be Proud Of.
Financial, Resource and Property	No direct implications.
Legal, Statutory and Procurement	No direct implications.
Crime and Disorder	No direct implications.
Environment and Sustainability	No direct implications.
Health and Wellbeing	No direct implications.
Risk Management and Health and Safety	No direct implications.
Equality and Diversity	No direct implications.
Privacy and Data Protection	No direct implications.

7 Appendices

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

- Appendix I: Mid Kent Councils Terms of Reference

8 Background Papers

None

APPENDIX I

Mid Kent Councils Audit Committee Terms of Reference

<u>Swale Borough Council</u>	<u>Ashford Borough Council</u>
<p>Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.</p> <p>Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.</p> <p>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.</p> <p>Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.</p> <p>Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.</p> <p>Receive the annual report of the Head of Internal Audit.</p> <p>Consider the reports of external audit and inspection agencies.</p> <p>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.</p> <p>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.</p>	<p>The Head of Internal Audit's Annual Report and Opinion, and a summary of the internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.</p> <p>The summary of internal audit reports issued in the previous period.</p> <p>Reports on the management and performance of the Audit Partnership Agreement.</p> <p>Reports from the Head of Internal Audit on agreed recommendations not implemented within reasonable timescales.</p> <p>The External Auditors management letter and relevant reports.</p> <p>Any detailed responses to the External Auditor's Annual Letter.</p> <p>Specific reports as agreed with the External Auditor.</p> <p>The scope and depth of external audit work and ensure it gives value for money.</p> <p>Liaison with the Audit Commission on the appointment of the Council's External Auditor.</p> <p>The commissioning of work from internal and external audit.</p>

<p>Approve the Annual Statement of Accounts.</p> <p>Present an annual report to the Executive on exceptions and highlights throughout the year.</p>	
<p><u>Maidstone Borough Council</u></p> <p>To Consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed and the level of assurance it can give over the Council's corporate governance arrangements.</p> <p>To consider reports dealing with the management and performance of Internal Audit Services, including consideration of endorsement of the Strategic Internal Audit Plan and any report on agreed recommendations not implemented within a reasonable timescale; and the Internal Audit Charter.</p> <p>To consider the External Auditor's Annual Audit letter, relevant reports, and any other report of recommendations to those charged with governance; and ensure that the Council has satisfactorily addressed all issues raised. To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>To review and approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of Policy and Resources Committee and Council.</p> <p>Consider and review the effectiveness of the Treasury Management Strategy, Investment Strategy, Medium Term Financial Strategy, Annual Report and Mid Year review and make recommendations to Policy and Resources Committee and Cabinet.</p>	<p><u>Tunbridge Wells Borough Council</u></p> <p>To consider the Internal Audit Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.</p> <p>To agree the external Audit Plan for the year.</p> <p>To approve the cost of the Audit.</p> <p>To consider summaries of specific internal audit reports as requested.</p> <p>To consider reports dealing with the management and performance of the providers of internal audit services.</p> <p>To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.</p> <p>To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.</p> <p>To consider specific reports as agreed with the external audit work and to ensure it gives value for money.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>To liaise with the Audit Commission over the appointment of the Council's external auditor.</p> <p>To commission work from internal and external audit.</p>

<p>Recommend and monitor the effectiveness of the Council's Counter Fraud and Corruption Strategy</p> <p>.</p> <p>To maintain a financial overview of the operation of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.</p> <p>In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.</p> <p>To monitor Council policies on 'Raising Concerns at Work' (Whistleblowing) and the Anti-fraud and corruption' strategy.</p> <p>To oversee the production of the authority's Annual Governance Statement and to agree its adoption.</p> <p>The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice and high standards of ethics and probity.</p> <p>This Committee will receive the annual review of the Local Code of Corporate Governance and may make recommendations to Policy and Resources Committee for proposed amendments, as necessary.</p> <p>To consider whether safeguards are in place to secure the Council's compliance with its own and other published standards and controls.</p>	<p>To oversee the whistle-blowing policy and make appropriate recommendations for change to the policy;</p> <p>To liaise with the Overview and Scrutiny Committee Chairman to coordinate cross-cutting issues and avoid duplication.</p>
---	--

Audit Committee Meeting	
Meeting Date	28 November 2018
Report Title	Interim Internal Audit & Assurance Report 2018/19
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance & Performance
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer	Rich Clarke, Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	1. To note progress against the 2018/19 Internal Audit & Assurance Plan and findings so far.

1 Purpose of Report and Executive Summary

- 1.1 The report provides to Members an update on progress so far towards completing the 2018/19 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.
- 1.2 Our results so far in 2018/19 have yielded mainly positive assurance ratings. We continue to work well with officers in both our initial work and in subsequent follow up of our recommendations. There are no matters of broader concern we wish to bring to Members' attention.

2 Background

- 2.1 The report provides an update for Members on progress against the 2018/19 Internal Audit & Assurance Plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:
 - Our audit charter (see also other item on tonight's agenda),
 - The independence of internal audit,
 - Audit plan changes and progress against the plan,
 - Resource needs of the audit service,
 - Results of audit work so far,
 - Affirming conformance with the Standards and Code of Ethics, and
 - Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

- 2.2 We have made good progress through the plan so far. We will continue to adjust our plans according to the Council's risk profile and remain confident of delivering a robust audit opinion by year end.
- 2.3 We note good levels of delivery for officers acting to addressing audit recommendations.
- 2.4 We also report our continuing conformance with the Standards (including independence) and the Code of Ethics. We also note our work with other local authorities across Kent, in particular supporting Dartford and Sevenoaks councils.

3 Proposals

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

4 Alternative Options

- 4.1 We do not propose any alternative action.

5 Consultation Undertaken or Proposed

- 5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers who have accepted all recommendations made so far in 2018/19.
- 5.2 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

6 Implications

Issue	Implications
Corporate Plan	Internal audit and its findings provide assurance to Members on the effectiveness of the Council's governance. Good governance is necessary for successfully fulfilling the Corporate Plan.
Financial, Resource and Property	Continuing the audit and assurance plan is within already approved budgetary headings and so needs no new funding for implementation.

Issue	Implications
Legal and Statutory	Reporting to Members in this way contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.
Crime and Disorder	The report makes no recommendations that impact crime and disorder.
Environmental Sustainability	The report makes no recommendations that impact environmental sustainability.
Health and Wellbeing	The report makes no recommendations that impact health and well being.
Risk Management and Health and Safety	<p>We present this report for information only so it has no direct risk management implications.</p> <p>Audit Standard 2060 demands we report to Members any risks accepted by management that in our view may be unacceptable to the organisation. For example, this might include audit recommendations that management refuse to address.</p> <p>There are no risks we have identified in our work that we believe management have unreasonably accepted.</p> <p>The report makes no recommendations that impact health and safety.</p>
Equality and Diversity	The report makes no recommendations that impact equality and diversity.
Privacy and Data Protection	The audit service collects no data directly from the public. Any data we collect during our reviews we hold in line with the Council's applicable policies.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Interim Internal Audit & Assurance Report

8 Background Papers

None applicable.

This page is intentionally left blank

Interim Internal Audit & Assurance Report



November 2018
Swale Borough Council



MID KENT AUDIT

Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

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

Interpretation:

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

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

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

Audit Charter

3. This Committee approved our *Audit Charter* in March 2016. The Charter remains effective through the updated standards in April 2017. There is an updated Charter on tonight's agenda.

MID KENT AUDIT

Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Swale BC during 2018/19 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

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

Resource Requirements

9. We reported in our plan presented to this Committee in March 2018 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

...we believe we have enough resource to deliver the 2018/19 plan
10. In 2018/19 we drew that conclusion considering setting up new software. That implementation is on track and described further later in this report. Since the plan we have also engaged with Dartford and Sevenoaks Councils to provide support, again described later in this report. Considering extra contractor support available to us through the Apex Contract managed by LB Croydon, we remain content we have enough resource to deliver the 2018/19 plan.

MID KENT AUDIT

Audit Plan Progress

11. This Committee approved our *Annual Audit & Assurance Plan 2018/19* on 14 March 2018. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2018 and expect completing enough to form our *Annual Opinion* by June 2019.
12. The table below shows progress in total number of days delivered against the plan (figures are up to end of October 2018, about 40% through the audit year).

Category	2018/19 Plan Days	Outturn at Interim	Days Remaining
2017/18 Assurance Projects	0	45	n/a
2018/19 Assurance Projects	345	104	241
Non project assurance work ¹	85	52	33
Unallocated contingency	40	17	23
Totals (18/19 Work Only)	470	173	297

13. Based on resources available to the partnership for the rest of the year we forecast delivery of around 267 further audit days. This creates a forecast total of 440, or 94% of planned days.
14. We detail the specifics, and results, of this progress further within this report.

¹ Non-assurance project work includes our work in the fields of Risk Management, Counter Fraud and Investigative Support, following up recommendations and annual audit planning.

MID KENT AUDIT

Results of Audit Work

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

Completed Assurance Projects Since Annual Report in June 2018

	Title	Days Spent	Report Issue	Assurance Rating
2017/18 Projects Issued after 1 June 2018				
I	Pre-Application Planning	17	Jun-18	Sound
II	Legal Services	*5	Jun-18	Sound
III	Stray Dogs	16	Jul-18	Sound
IV	HR Policy Compliance	*6	Jul-18	Sound
V	Transformation	15	Nov-18	Sound
2018/19 Projects Issued before Committee Meeting November 2018				
VI	Council Tax Reduction Scheme	20	Sep-18	Sound
VII	Financial Resilience	*6	Sep-18	N/A
VIII	Temporary Accommodation	16	Oct-18	Sound
IX	Insurance	12	Oct-18	Strong
X	Waste Income	16	Oct-18	Sound

Assurance Projects Underway

Title	Days So Far	Expected Report	Notes / Stage
Revenues & Benefits Compliance	*3	Dec-18	Fieldwork (also MBC/TWBC)
Members' Allowances	13	Dec-18	Fieldwork
Sittingbourne Town Centre	5	Jan-19	Fieldwork
Conservation Planning	4	Jan-19	Fieldwork
Treasury Management	1	Jan-19	Fieldwork
Commissioning & Procurement	2	Feb-19	Planning
Cyber Security	*1	Feb-19	Planning (cross partnership specialist contractor)
Licensing Compliance	3	Feb-19	Planning
Electoral Registration	1	Mar-19	Planning
Absence Management	*1	Mar-19	Planning (also MBC)
Income Management	1	Mar-19	Planning

MID KENT AUDIT

Assurance Projects Yet to Begin

Title	Expected Start	Expected Report	Notes
Waste Contract	Q3	Feb-19	Also ABC & MBC
Recruitment	Q3	Mar-19	Also MBC
Website Management	Q3	Mar-19	
Asset Management	Q3	Apr-19	
IT Technical Support	Q4	Apr-19	Also MBC & TWBC
Regeneration	Q4	May-19	
Universal Credit	Q4	May-19	
General Data Protection Regulations	Q4	Jun-19	Cross partnership
Homelessness Reduction Act	Q4	Jun-19	Cross partnership

16. Our approved plan originally included a project examining *Health & Safety* at the Council. However, following planning discussions with officers, we have agreed to defer to 2019/20. This will allow the service to complete its Health and Safety Strategy and associated compliance programme. We will provide advice and support on the compliance programme as a consultancy engagement.
17. We will continue to keep these projects under review because of our available resources and the changing risk position at the authority.

MID KENT AUDIT

Audit Project Summary Results

I: Pre-Application Planning (June 2018)

18. Our opinion based on our audit work is that Planning Services has **Sound** controls in place to manage the Pre-application Planning Advice service.
19. Our review found that pre-application planning advice requests are generally processed in accordance with agreed procedures, with only a few minor areas for improvement identified. Testing confirmed that requests are generally supported by appropriate documentation and that arrangements are in place to monitor officer case load and performance against agreed response targets.
20. However financial procedures over the reconciliation of income should be improved to ensure all income due to the Council is received, and to identify and resolve any variances. We have also identified a weakness in the controls to authorise refunds where the original payment was made by card.

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

21. The service has acted to fulfil 4 of the 5 recommendations. The remaining 1 falls due before the end of 2018 so we will follow up early in the new year.

II: Legal Services (June 2018)

22. Our opinion based on our audit work is that the Legal Services has **Sound** controls in place to manage its risks and support achievement of its objectives.
23. We found generally sound processes in place for administering case files and finances within Mid Kent Legal Services. This includes an organised case management system – IKEN – as well as adherence to financial procedures to manage spending and budgets.
24. However, the service must make significant improvements in two areas; retaining signed contracts and information supporting external invoices. The service could locate only half of the contracts we requested in testing and fully support costings for only one of twelve invoices examined.

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

MID KENT AUDIT

25. The service has now acted to fulfil 4 of the 7 recommendations. The remaining 3 fall due before the end of 2018 so we will follow up early in the new-year.

III: Stray Dogs (July 2018)

26. Our opinion based on our audit work is that the Environmental Response Team has **Sound** controls in place to manage the Stray Dog service.
27. Our audit testing has confirmed that the Stray Dog service is being operated in accordance with the Council's Stray Dog policy, whilst also satisfying its statutory obligation in relation stray dogs.
28. We have also established that the Stray Dog service makes wide use of the Council's social media accounts to advertise stray dogs - both lost and found, with a high number of stray dogs being reunited with their owners.
29. However, our audit testing has identified control weaknesses in relation to the recording, referencing and reconciliation of stray dog income received via the kennels, and the issuing, evidencing and following up of enforcement notices issued.

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

30. The service has already acted to implement all 4 recommendations.

IV: HR Policy Compliance (July 2018)

31. Our opinion based on our audit work is the Human Resource Service has **Sound** controls in place to ensure compliance with the three Council policies examined: Home and Mobile Working, Flexible Working and Disciplinary.
32. Our testing confirmed full conformance with the Flexible Working and Disciplinary Policies. Officers within the service keep good records to support decisions taken and provide satisfactory support to managers and employees. We found some improvements needed on record keeping to show conformance with the Home & Mobile Working policy, in particular ensuring managers are aware of insurance requirements.

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

MID KENT AUDIT

33. Both recommendations fall due for action at the end of 2018. We will follow up in the new-year and report to Members in due course.

V: Transformation (November 2018)

34. Our opinion based on our audit work is that the controls in operation over delivery of the Transformation Programme provide a **Sound** level of assurance.
35. The transformation programme runs in its current format until November 2018. Work is already underway to establish how the Council's transformation work may proceed in the future, and this date draws closer. As such, the findings in this review will be used to support the development and delivery of any new arrangement going forward.
36. In this review we have looked at the governance arrangements and also the methods followed as part of delivering individual projects. We have found a number of areas for improvement. As the programme has developed over the last 2 years, the objectives and purpose, when compared to the original business case, have not been revised or updated. As a result, it has been difficult to establish and measure whether the purpose of the programme is on track to deliver the intended benefits. This is made even more difficult as the programme has not adopted or reported against any performance measures or since commencing. Secondly, the work plan has not been updated or reported to the Board on a regular basis, and as such, the plan is not realistic and will not be completed as originally planned.
37. The programme is governed by a project board which includes Senior Officers and Members and follows sound project management principles which includes regular reporting and monitoring. Improved reporting however would further enhance the oversight provided by the Board.
38. Our testing of a sample of individual reviews found that overall compliance is achieved with the agreed methodology, although we have identified some inconsistencies. Our findings seek to enhance the project work going forward, particularly with regards to the tracking of recommendations and delivery of outcomes.
39. We are currently discussing with management the best way forward for our recommendations in the light of decisions pending about the future of the transformation programme.

MID KENT AUDIT

VI: Council Tax Reduction Scheme (September 2018)

40. Our opinion based on our audit work is that the service has **Sound** controls in place to ensure compliance with the Council Tax Reduction Scheme.
41. Our review found that the Council Tax Reduction Scheme is reviewed and approved annually following a consultation process. Procedure notes are updated and issued to staff following any changes, and system parameters are in place to ensure the rules of the Scheme are consistently applied. Minor improvements to the process of checking and testing the system parameters are needed to ensure all changes are updated.
42. The controls in place over the processing and payment of council tax support are adequately designed. Our testing confirmed that new claims and changes of circumstances are processed in accordance with procedures and payments are promptly and accurately paid direct to the council tax account.

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

43. The recommendations fall due for action before the end of 2018/19. We will report the results to Members in our annual report in June 2019.

VII: Financial Resilience Index (September 2018)

44. CIPFA closed its consultation on a proposed Resilience Index (the “Index”) on 24 August 2018. The stated aim of the index, according to CIPFA is:

“...to be an authoritative measure of council’s financial resilience, drawing on publicly available information, intended to provide an early warning system where it is needed so that action can be taken at a local level in a timely manner.”

45. CIPFA published a reasonably detailed explanation of its intended method alongside the consultation on its overall proposal. The core of the method is to take accounts data focusing on RSG reliance, reserve levels and auditor opinions and combine them into a single weighted score. CIPFA will then adjust the scores to set the median at 100. Authorities with a score of greater than 100 show signs associated with greater financial resilience than their peers.
46. Based on the method set out in the consultation, we found all four authorities in the partnership comfortably into or beyond the mid-range with index scores between 98 and 125. However, there is notable range among districts. The top of the index is

MID KENT AUDIT

190, far above the median level, with scores falling down to 55. Across Kent we found a range between 87 and 166.

47. CIPFA plan to develop a final version of its Index before the end of the year. We will update our work accordingly and report again to partner authorities.

VIII: Temporary Accommodation (October 2018)

48. Our opinion based on our audit work is that the Housing Service has **Sound** controls in place to manage its risks and support achievement of its objectives.
49. Our testing confirms the Council meets its statutory responsibility to provide and allocate temporary accommodation to eligible people, but has scope to improve how it documents decisions. The Service currently reports a recurring overspend against budget. We found the financial reporting and monitoring controls in place work well. However, these controls struggle to materially reduce overspends owing to the growing scale of demand. The Council recognises this risk appropriately in its corporate planning.

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

50. According to the agreed schedule, the service will fulfil all recommendations before the end of 2018/19.

IX: Insurance (October 2018)

51. Our opinion based on our audit work is that the Finance Team has **Strong** controls in place to manage its risks and support achievement of its objectives relating to the provision of managing Insurance.
52. We established that the insurance contract with Zurich Municipal was awarded as a result of a tendering exercise with the final decision being approved by Cabinet. Insurance policies are renewed annually and premium payments reconciled against the Finance Insurance Officer's expectations. The insurance policies covered all significant risks and insured assets were regularly revalued for insurance purposes. Insurance premiums were recorded on a schedule and these payments were correctly authorised. Premiums for 2017/18 were allocated to service budgets. The Council is

MID KENT AUDIT

proactive in reducing the risk of insurance claims and claim settlements were monitored by the Finance Insurance Officer. New claims were received with supporting documentation and relevant documentation was provided to Zurich to assist in investigating claims. A spreadsheet was updated detailing claim information and where possible, the Finance Insurance Officer detailed what action Council departments could take to mitigate future claims. Meetings were held twice a year with the insurer to discuss issues and policy renewals, with the option to communicate in-between meetings as needed. Any settled claims were accompanied by a report confirming the payments made.

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

53. The authority has already acted to implement the recommendation.

X: Waste Income (October 2018)

54. Our opinion based on our audit work is that Contracts and Procurement and Customer Services have **Sound** controls in place to administer and manage bulky waste and garden waste requests.

55. Our review found that bulky waste and garden waste requests are processed by Customer Services and collections are carried out by the Contractor. Testing confirmed that collections are booked and paid for in advance and garden waste bins are promptly delivered on registration. We found cancellations are not currently up to date and there is a risk that collections could be carried when the garden waste service has not been renewed.

56. The controls in place over the receipt and banking of bulky waste and garden waste income are adequately designed. However there is a gap in controls where there are no arrangements in place to reconcile the income due to the income banked to ensure all income due to the Council is received.

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

57. Both recommendations fall due for action before the end of 2018/19. We will report the results to Members in our annual report in June 2019.

MID KENT AUDIT

Recommendation Follow Up Results

58. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).

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

Project	Total	High Priority	Medium Priority	Low Priority
Recommendations brought into 2018/19	31	0	13	18
New recommendations agreed in 2018/19	26	3	7	16
Total Recommendations Agreed	57	3	20	34
Fulfilled by 30 September 2018	37	1	13	23
Recommendations cfwd past 30 September	20	2	7	11
Not Yet Due	14	2	3	9
Delayed Implementation but no extra risk	6	0	4	2
Delayed Implementation with risk exposure	0	0	0	0

60. The table below gives more detail about the specific audit projects where we are following up recommendations.

Project	Report Issue & Rating	Recs Agreed	Delayed	Not Due	Complete	Full Completion
Complaints	April-17 (Sound)	4	0	0	4	Jun-18
Residents Parking	May-17 (Sound)	8	0	2	6	Mar-19
Safeguarding	July-17 (Strong)	1	0	0	1	Jun-18
Land Charges	Nov-17 (Weak)	5	0	0	5	Jun-18
Corporate Planning	Jan-18 (Strong)	2	0	1	1	Jun-19
Building Maintenance	Feb-18 (Sound)	3	0	1	2	Dec-18
Sports Pitches, etc.	April-18 (Sound)	7	1	0	6	Dec-18

MID KENT AUDIT

Project	Report Issue & Rating	Recs Agreed	Delayed	Not Due	Complete	Full Completion
Parking Income	April-18 (Sound)	6	2	0	4	Dec-18
Food Safety	April-18 (Sound)	7	0	0	7	Sep-18
Pre-Application Planning	June-18 (Sound)	5	0	1	4	Dec-18
Legal Services	June-18 (Sound)	7	1	2	4	Dec-18
Stray Dogs	July-18 (Sound)	4	0	0	4	Sep-18
HR Policy Compliance	July-18 (Sound)	2	0	2	0	Dec-18
Council Tax Reduction	Sept-18 (Sound)	2	0	0	2	Mar-19
Temporary Accommodation	Oct-18 (Sound)	3	0	3	0	Mar-19
Waste Income	Oct-18 (Sound)	2	0	2	0	Mar-19
Insurance	Oct-18 (Strong)	1	0	0	1	Sep-18

MID KENT AUDIT

Other Audit Service Work

Risk Management Update

61. Effective risk management is a core part of the Council's governance, contributing to successful delivery of services and key priorities. Risk management is how the Council identifies, quantifies and manages the risks to its objectives.
62. The Council's agreed its current risk management approach July 2015. Since then we have had lead responsibility for co-ordinating and championing risk management across the Council. Our role includes reporting regular updates to Officers and Members, through the Senior Management Team (SMT), Informal Cabinet and the Audit Committee. We also provide support and training to help officers manage risks effectively.
63. We report the Council's risks twice a year to Informal Cabinet and quarterly to SMT. Audit Committee receive an annual report on the effectiveness of the Council's risk management. We set out the current risk profile below. This profile shows inherent score which accounts for controls already in place.

Risk Profile (Inherent Risk)

Likelihood	5						Risk Colour	Oct-18
	4		2	1	4		BLACK	0
	3	1	6	30	6	2	RED	13
	2	2	13	18	12	1	AMBER	69
	1		1	3	2		GREEN	19
		1	2	3	4	5	BLUE	3
		Impact					TOTAL	104

64. Risks cover an uncertain future, and we can never remove all doubt. We will therefore continue to report to SMT and Members, and oversee progress over the course of the year to highlight any significant movement of risks over time.
65. The Council must keep its approach up-to-date to keep its value. Our general support to the Council continues and will focus in the coming months on:

MID KENT AUDIT

- **Full review of the approach:** The Council approach its approach over 3 years ago. Now is the right time to review and, where necessary, update.
- **Training programme:** We have continued to promote workshops, and deliver risk sessions as and when requested. However, developing the overall knowledge and expertise for risk management across the Council needs a wider approach. We will be looking to develop a training session for managers and officers on the principles of risk management, and to tailor that to the framework and procedures. Furthermore, we will deliver training to Members.

Counter Fraud Update

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

Investigations

67. During the first half of 2018/19 we have helped officers with investigations referred to us. These include an allegation of theft against an employee. The Council recovered the money and the individual left employment and received a police caution.

Whistleblowing

68. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
69. We have so far had no matters raised with us through the Whistleblowing Policy, although note we are still receiving information through other routes.

National Fraud Initiative

70. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.

January 2017 Data Matches

MID KENT AUDIT

71. Our investigations into the January 2017 matches continue. Most fell to the MKS Revenues and Benefits Compliance team to look into. That team report separately to this Committee.
72. We have looked into matches from non-revenues datasets in line with approved strategies with the focus on 'high risk' matches identified by the Cabinet Office based on previous national results. The Cabinet Office does not expect authorities to look into every match.
73. The table below sets out results for the data sets within Mid Kent Audit's scope:

Dataset	Matches (recommended)	Investigated (recommended)	Frauds	Errors	Value
Creditors History	365 (57)	57 (57)	0	0	0
Creditors Standing Data	242 (0)	0 (0)	0	0	0
Insurance Claims	1 (1)	1 (1)	0	0	0
Procurement	15 (9)	12 (9)	0	0	0
Payroll	15 (0)	0 (0)	0	0	0
Housing Waiting List	102 (97)	102 (97)	0	0	0
Totals	740 (164)	172 (164)	0	0	0

74. We have completed review of all high risk recommended matches and found no frauds or errors.

January 2019 Data Matches

75. We received notice from the Cabinet Office seeking data for the 2019 exercise in July. Working with services, we have correctly provided the data before the deadline of October 2018. Before submission the Council must complete a Privacy Notice to confirm it has processed data in line with relevant law. We worked with services to ensure the Council met this duty.
76. We expect results from this exercise by the end of January 2019. We will update the Committee next year on findings arising from those matches.

Other Audit and Advice Work

77. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance at Information Governance Group and as part of the Strategic Management Team. We have also

MID KENT AUDIT

completed specific reviews looking at individual parts of the Council's control environment at the request of officers.

78. We have, at the request of the Mid Kent Services Board, begun a programme of 'mid-term reviews' examining shared services. These reviews follow the model of the Audit Mid-Term Review completed last year and start with a look at the Shared HR Service. We aim to complete that review in early 2019. We will follow with reviews on the Shared Revenues & Benefits and ICT services.
79. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

MID KENT AUDIT

Code of Ethics and Standards Compliance

- 80. On 1 April 2017 the RIASS² published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
- 81. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards.

Code of Ethics

- 82. We include the full Code at Annex 2. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. Also the Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life’s *Seven Principles of Public Life* (the “Nolan Principles”).
- 83. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.
- 84. We can report to Members we remain in conformance with the Code.

Public Sector Internal Audit Standards

- 85. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
- 86. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA’s recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.

² Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

MID KENT AUDIT

87. The Standards demand a new assessment at least every five years, meaning ours is due before April 2020. Guidance from the Internal Audit Standards Advisory Board advises that Members should play a leading role in the assessment, including acting as sponsor and receiving the findings and recommendations. We will include in our 2019/20 audit plan a proposal for getting the needed assessment but welcome any comments from Members as we prepare that plan.

88. We continue to work in full conformance with the Standards.

Pentana Audit Software

89. In our Annual Report we confirmed that, after a competitive tender, we had decided to move from *Teammate* to *Pentana* audit software. As well as providing a significant saving in licence costs each year, *Pentana* expands our capacity to organise, use and present the information we gather in completing audits.

90. Our implementation project is nearing completion, with information drawn from *Teammate* and all the team now using *Pentana* for day-to-day work. We hope to make much greater use of its analysis and presentation alternatives in future communications with Members, starting with our 2019/20 audit plan. However, as a sign of the possible uses, the chart below quickly shows comparative coverage of the audit universe of each authority in the partnership in our 2018/19 audit plan.

91. The numbers related to how many audit reviews planned cover that area. Red shading means an area does not feature in our plan. Green means we plan to examine the entire area with shading inbetween showing the proportion covered in year.

	Ashford Borough Council	Maidstone Borough Council	Swale Borough Council	Tunbridge Wells Borough Council	Shared Services
Communications	0	1	1	1	
Community Safety	0	1	1	1	1
Corporate	5	3	3	7	2
Culture & Economy	0	4	2	2	
Democracy	0	0	2	0	
Environment	3	2	2	0	
Environmental Health	1				1
Estate Management	1	1	1	0	
Housing & Landlord	5	2	2	1	
Human Resources	2	0	1	1	3
Information Technology	1			0	3
Parking	1			0	0
Planning	2	3	1	2	0
Revenues & Benefits	1		2		3
Accounting & Finance	3	2	3	3	2

MID KENT AUDIT

Audit Team Update

Working with Dartford and Sevenoaks Borough Councils

92. On 1 August our Deputy Head of Audit Partnership – Russell Heppleston – took up a six-month secondment to the Head of Audit role for the existing partnership between Dartford and Sevenoaks Councils. This secondment, awarded to Russell after a competitive interview, reflects well on his work in the partnership and is a great opportunity for him to lead a service.
93. The temporary move also created opportunities within the audit team in Mid Kent. After interviews, Jo Herrington has moved from Senior Auditor to Audit Manager covering Swale and Tunbridge Wells. Andy Billingham moves from an Auditor role to take Jo's place as a Senior Auditor, again after interviews within the team.
94. This means that, at least until the end of the secondment period, the Mid Kent Audit Management Team comprises:
- Ali Blake: Ashford BC Manager and risk management lead across the partnership
 - Frankie Smith: Maidstone BC Manager, Shared Service Lead plus counter fraud lead across the partnership.
 - Jo Herrington: Swale BC and Tunbridge Wells BC Manager.
95. During November we will begin discussions with Dartford and Sevenoaks on the longer term once the secondment ends in February. We hope to update Members as part of our 2019/20 audit plan.

Performance Indicators

96. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. The Shared Service Board (with Mark Green, Director of Finance & Business Improvement as the Council's representative) considers these measures at each quarterly meeting. We also consolidate the results into reports presented to the MKS Board (which includes the Council's Chief Executive and Leader).
97. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

MID KENT AUDIT

Measure	2014/15 Results	2015/16 Results	2016/17 Results	2017/18 Results	2018/19 Q1/2
Cost per audit day	Met target	Met target →←	Beat target ↑	Beat target ↑	Ahead of target ↑
% projects completed within budgeted number of days	47%	60% ↑	71% ↑	78% ↑	80% ↑
% of chargeable days	75%	63% ↓	74% ↑	74% →←	70% ³ →←
Full PSIAS conformance	56/56	56/56 →←	56/56 →←	58/58 ↑	58/58 →←
Audit projects completed within agreed deadlines	41%	76% ↑	81% ↑	87% ↑	80% ↓
% draft reports within ten days of fieldwork concluding	56%	68% ↑	71% ↑	80% ↑	80% →←
Satisfaction with assurance	100%	100% →←	100% →←	100% →←	100% →←
Final reports within 5 days of closing meeting	89%	92% ↑	94% ↑	96% ↑	100% ↑
Respondents satisfied with auditor conduct	100%	100% →←	100% →←	100% →←	100% →←
Recommendations fulfilled as agreed	95%	98% ↑	98% →←	97% →←	100% ↑
Exam success	100%	100% →←	85% ↓	85% →←	100% ↑
Respondents satisfied with auditor skill	100%	100% →←	100% →←	100% →←	100% →←

98. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.

99. We have had the same set of indicators since 2014/15. The choice of those indicators reflects the service at the time and the limits of what we could draw from our audit software. With the powers of our new software and potential further development of the audit service we plan to look again at how best to provide an insight into our performance. We are consulting with the MKS Board and Ashford BC and hope to have a refreshed set of indicators for 2019/20.

³ Target lowered slightly in 2018/19 to account for project costs on new software implementation. We remain on target with chargeability

MID KENT AUDIT

Acknowledgements

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

MID KENT AUDIT

Annex: Assurance & Priority level definitions

Assurance Ratings 2018/19 (Unchanged from 2014/15)

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

MID KENT AUDIT

Recommendation Ratings 2018/19 (unchanged from 2014/15)

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

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

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

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

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

MID KENT AUDIT

Annex 2: Institute of Internal Audit Code of Ethics

{ CODE of ETHICS... }

// PRINCIPLES

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

- **Integrity**

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

- **Objectivity**

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

- **Confidentiality**

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

- **Competency**

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

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

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

2. **Objectivity**

Internal Auditors:

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

3. **Confidentiality**

Internal Auditors:

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

4. **Competency**

Internal Auditors:

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



The Institute of Internal Auditors

Audit Progress Report and Sector Update

Swale Borough Council
Year ending 31 March 2019
November 2018



Contents

Section	Page
Introduction	3
Progress at November 2018	4
Audit Deliverables	5
Sector Update	6
Links	10

Introduction



Iain Murray

Engagement Lead

T 020 7728 3328
M 07880 456190
E iain.g.murray@uk.gt.com



Trevor Greenlee

Engagement Manager

T 01293 554071
M 07880 456148
E trevor.greenlee@uk.gt.com

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

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

Members of the Audit Committee can find further useful material on our website, www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector and where you can 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.

Progress at November 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure, was issued on 31 July 2018. Our Annual Audit Letter summarising the outcomes of our audit was reported to the September 2018 Audit Committee.

2017/18 Certification work

Our work to certify the Council's 2017/18 housing benefit claim is currently in progress. We anticipate that our work will be completed to allow certification of the claim by 30 November 2018, the deadline specified by DWP. The outcomes from our work will be reported to the March 2019 Audit Committee in our 2017/18 Certification Report.

2018/19 Audit

We have begun our planning processes for the 2018/19 audit. Our early testing work is planned for January/February 2019. Our audit plan will be presented to the March 2019 Audit Committee.

We will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Our fee letter confirms the audit fee for 2018/19.	July 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report summarises the outcomes from our work on the financial statements and to support our value for money conclusion.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter The annual audit letter communicates the key issues arising from our 2018/19 work.	September 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere.

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

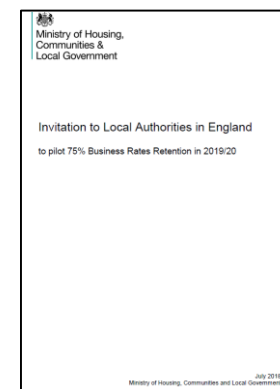
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



Grant Thornton

An instinct for growth™

grantthornton.co.uk

© 2018 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

This page is intentionally left blank

Audit Committee Meeting		Agenda Item No. 11
Meeting Date	12 September 2018	
Report Title	Mid Kent Services Fraud and Compliance	
Cabinet Member	Cllr Dewar-Whalley, Cabinet Member for Finance and Performance	
SMT Lead	Nick Vickers	
Head of Service	Nick Vickers	
Lead Officer	Zoe Kent	
Key Decision	No	
Classification	Open	
Forward Plan	Reference number:	
Recommendations	1. To note the results of the Mid Kent Services Fraud and Compliance Team for 2017/18	

1 Purpose of Report and Executive Summary

- 1.1 In March 2016 responsibility for the investigation of Housing Benefit fraud moved to the Department for Work and Pensions (DWP). This report provides a summary of the activities and outcomes undertaken by the Mid Kent Fraud and Compliance team during 2017/18.

2 Background

- 2.1 In 2015/16 the DWP introduced the Single Fraud Investigation Service (SFIS) moving the investigation of Housing Benefit fraud into a service investigating all types of benefit fraud. Kent County Council, Kent Police and Kent Fire & Rescue (the major preceptors) and the Kent billing authorities saw this as an opportunity to refocus the expertise held within districts to investigate fraud and error within the Council Tax Reduction Scheme, Council Tax and Business Rates discounts, exemptions and reliefs.
- 2.2 The cost of such Council Tax discounts and exemptions to the council and major preceptors is £8 million (A cost to Swale of £880k).
- 2.3 Mid Kent Services successfully bid for funding of £410,000 towards the cost of running the team for a period of three years. Swale, Maidstone and Tunbridge Wells Borough Councils approved funding of £150,000 for the three years making a total cost of £560,000. A cost to Swale of £16,609 in 2017/18.

- 2.4 Basing the team as part of Mid Kent Services enables reviews to be carried out across the three boroughs. This ensures that fraud carried out across the boundaries of the authorities is picked up.
- 2.5 Projects are also undertaken across Kent as part of the Kent Intelligence Network. Data is matched across all 13 districts and Medway Council. Sharing data enables authorities to find those claiming benefits, discounts and reliefs that would not be picked up if only using data from a single authority.
- 2.6 An outline of the reviews carried out in 2017/18 can be found from paragraph 2.7 to 2.16

Reviews of Council Tax and NNDR Discounts

- 2.7 **Single Person Discount Reviews** are carried out using credit data information to find addresses where a single person discount is being claimed and the credit data shows more than one adult living there. Funding for the credit data was provided by the major preceptors. Using the data enables the reviews to be carried out specifically on cases where there is evidence of more than one adult in the property. The reviews are carried out on a monthly basis, with around 100 accounts being reviewed each month. This is seen as being more effective than carrying out a bulk review every few years.
- 2.8 The Council also signs up to the Cabinet Office National Fraud Initiative exercise. This matches Council Tax data against Electoral Roll data. Carrying out two different types of reviews ensures that we are using all available data to find incorrectly claimed discounts. The value of the removals has reduced, this is because the credit data is reviewed on a monthly basis which means incorrectly claimed discounts are removed significantly quicker than when annual or bi-annual reviews are carried out.

Table 1. Single Person Discount Review 2017/18

	Number of Removals	Savings
Single Person Discount Review	132	£31,259
National Fraud Initiative Review	101	£26,881
Total	233	£58,140

- 2.9 **New Homes Bonus Review** – The New Homes Bonus funding is based on the number of new properties in the borough less the number of long term empty properties. Previously an external company had been used to carry out a review of our long-term empty properties. Using the compliance team to carry out the reviews is a cost saving because we are not charged for each property found to be back in use. Using staff with local knowledge also cuts back on the time taken to carry out the review.

- 2.10 As the Council only gives one months discount to empty properties, owners pay 100% Council Tax on properties after one month, this means they are less likely to tell us when they have moved into a property that has been empty. If the review is not carried out annually the amount of New Homes Bonus received could be significantly reduced.

Table 2. New Homes Bonus – Empty Property Review 2017/18

Empty Property Review	Number of Removals	Savings
	153	£211,400

- 2.11 **Additional Council Tax Reviews** – It is prudent to review all Council Tax discounts and exemptions periodically to ensure those living in the property are still entitled to the discount they are receiving. By using the Compliance Team rather than Council Tax staff we are able to carry out more in depth reviews using their fraud training and experience. Reviews were carried out on student, carer and deceased person's exemptions. The carers and deceased person's reviews concluded that all exemptions had been awarded correctly and were still valid. This showed that the correct processes are in place to ensure that these types of exemptions are reviewed frequently and removed as soon as the exemption is no longer relevant. Having a robust review process in place ensures that exemptions are awarded correctly and the public purse continues to be protected.

Table 3. Additional Council Tax Exemption Reviews 2017/18

	Number of Removals	Savings
Student Exemptions	45	£30,411
Carer Exemptions	0	£0
Deceased Persons Exemption	0	£0
Total	45	£30,411

- 2.12 **Business Rates - Small Business Rate Relief Review** Small Business Rate Relief (SBRR) is awarded to any business where the rateable value is below £15,000 and the owner does not own any other businesses. Now that business rates makes up part of the funding of the council's revenue it is imperative that we are only awarding business rate reliefs where a business is entitled to receive a reduction. Businesses that claim SBRR are less likely to report changes because they consider they do not pay rates.
- 2.13 The first review carried out in 2016/17 covered all SBRR accounts. This led to a significant number of accounts having their SBRR removed. This was a good exercise to cleanse our database and means going forward we are able to use data matching to review cases.

- 2.14 A review was carried out across Kent comparing SBRR data. As a full review had been carried out in 2016/17 the matches for Swale were low.

Table 4. Small Business Rate Relief Review 2017/18

	Number of Removals	Savings
SBRR Review	2	£5,922

- 2.15 **External Reviews** – When Housing Benefit fraud was moved to the DWP the Council signed an agreement with the DWP to provide evidence to the DWP for their investigations. Funding is provided by the DWP but this does not cover the staff time involved. It is a time consuming exercise however necessary to ensure prosecutions can be carried out.

3 Proposals

- 3.1 That the results of the Fraud and Compliance Team for 2017/18 are noted.

4 Alternative Options

- 4.1 The team's funding continues until 31 March 2019. If KCC reduce the funding the future of the team will need to be considered.

5 Consultation Undertaken or Proposed

- 5.1 None

6 Implications

Issue	Implications
Corporate Plan	Open for business BV9 – Percentage of Council Tax collected BV10 – Percentage of non-domestic rates collected
Financial, Resource and Property	75% of funding for the cost of the team is provided by the major preceptors. It is possible that if the team did find savings that were higher than the running costs, funding may not be provided by the major preceptors in future years.
Legal and	Local authorities are empowered to investigate Council Tax

Statutory	Support and associated discounts and exemptions.
Crime and Disorder	None
Environmental Sustainability	None
Health and Wellbeing	None
Risk Management and Health and Safety	The Fraud and Compliance team minimises the risk of fraud and error occurring within the revenues services. By carrying out reviews it reduces the likelihood of exemptions and discounts being incorrectly claimed. Therefore, if in the future we ceased to have this team there would be a risk of incorrectly claimed discounts increasing.
Equality and Diversity	None
Privacy and Data Protection	None

This page is intentionally left blank