

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 13 March 2019

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), Peter Marchington (Vice-Chairman) and Ken Pugh.

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 28 November 2018 (Minute Nos. 359 - 368) 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.
- (c) Where it is possible that a fair-minded and informed observer, having considered the facts would conclude that there was a real possibility that the Member might be predetermined or biased the Member should declare their predetermination or bias and then leave the room while that item is considered.

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

Part B Reports for decision by the Committee

- 5. Work Plan (including professional updates)
- 6. Internal Audit Plan 2019/20 5 - 34
- 7. Strategic Risk Register and Action 35 - 46
- 8. Certification of Claims and Returns 47 - 58
- 9. External Audit Progress Report 59 - 76
- 10. 2018/19 Audit Plan - External Audit 77 - 90

Issued on Monday, 4 March 2019

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

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

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Audit Committee Meeting	Agenda Item 6
Meeting Date	13 March 2019
Report Title	Internal Audit & Assurance Plan 2019/20
Cabinet Member	ClIr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Rich Clarke – Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. Approve the Internal Audit & Assurance Plan for 2019/20 2. Note the Head of Audit Partnership’s view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion. 3. Note the Head of Audit Partnership’s assurance that the plan is compiled independently and without inappropriate influence from management. 4. Note the proposed criteria for commissioning an External Quality Assessment of the audit service later in 2019/20.

1 Purpose of Report and Executive Summary

- 1.1 The Public Sector Internal Audit Standards (the “Standards”) require an audit service to produce and publish a risk based plan, at least annually, for approval by Members. The plan must consider input from senior management and Members.
- 1.2 In Mid Kent Audit, planning is a continuous activity but we began the programme working towards the 2019/20 plan document in late 2018. The paper here sets out the plan and project list intended for 2019/20 for Member approval.

2 Background

- 2.1 The Standards set out the requirements that a Head of Audit must meet in setting out the plan. We refer to relevant sections from the Standards in the appendix to this report.

2.2 To note, audit plans must be at least annual but can have shorter timescales if needed. Also, the Standards explicitly direct that Head of Audit must keep the plan flexible and responsive to emerging and changing risks across the year.

2.3 2019/20 also marks five years since our last External Quality Assessment. This means we must commission a new assessment during this year. The plan document sets out a proposed approach for commissioning the assessment. Noting this Committee as a key client for the assessment, we also seek the Committee's view on how we should undertake that commission.

3 Proposal

3.1 The appendix sets out the proposed plan for 2019/20, including background details on how we compiled the plan and how we propose to manage its delivery.

3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.

4 Alternative Options

4.1 The Standards mandate compiling a risk based plan for management comments and Member approval. Although by convention that plan is presented annually around the start of the financial year, the Standards do not specifically require that action. The Council could, potentially, move to a shorter planning cycle which would allow more flexibility for responding to risk. There are other authorities that take a similar approach (Suffolk CC, to name one example).

4.2 However, that move would strike against a practice considered to work well, and one which allows a degree of certainty to resource requirements that helps ensure stability in a service spread across four authorities.

4.3 The Standards do not mandate any specific work for the plan, so its content is entirely at the discretion of the internal audit provider (subject to the comments of management and approval of Members) and have an enormous range of possibilities with respect to the areas that could be examined. The attached document represents the currently proposed responses to the risks assessed.

5 Consultation Undertaken or Proposed

5.1 We circulated an earlier, longer, draft to Heads of Service and Directors and held individual meetings to discuss proposed projects in their areas. Those meetings have now taken place and the attached represents an adaptation of the original draft reflecting comments received.

5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6 Implications

The Council's internal control processes include operating an effective internal audit service. This plan aims to deliver that requirement and so support the Council's overall governance.

Issue	Implications
Corporate Plan	The audit plan supports the Corporate Plan in assisting the governance around its delivery, but proposes no amendments.
Financial, and Property	The work programme set out in the plan is produced to be fulfilled within agreed resources for 2019/20.
Legal and Statutory	The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore the Council must approve a plan to maintain regulatory conformance.
Crime & Disorder	No direct implications.
Environmental Sustainability	No direct implications.
Health/Wellbeing	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within the risk management process.
Equality/Diversity	No direct implications.
Privacy and Data Protection	We collect and store information in the course of our audit work examining areas of the Council. We use that information in accordance with our collaboration agreement which, in turn, is in accordance with applicable laws and regulations.

7 Appendices

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

- Appendix I: Internal Audit & Assurance Plan 2019/20 (note that the plan itself includes appendices numbered I – IV).

8 Background Papers

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

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Internal Audit & Assurance Plan 2019/20

Swale Borough Council



MID KENT AUDIT

Introduction

1. We provide an independent and objective assurance and consulting service designed to add value to and improve the Council's work. We help the Council achieve its objectives by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance.
2. We work within statutory rules drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the "Standards"). In 2015 the Institute of Internal Audit (IIA) assessed us as working in full conformance with the Standards. We have kept full conformance since then, including through the major update to the Standards in 2017.
3. Over the next year we must commission an External Quality Review as five years have passed since our last assessment. We discuss the assessment need further later in this report.
4. We also work to an [Audit Charter](#) agreed at each partner authority. The *Charter* sets out the local context for audit, including independence safeguards. At this Council, the Audit Committee approved the Charter in November 2018.
5. The Standards set out demands on the Head of Audit Partnership for compiling and presenting a document to describe planned work for the year ahead. The plan, presented for Member approval, must set out:
 - Internal audit's evaluation of and response to the risks facing the organisation.
 - How we consult with senior management and others.
 - How we have considered whether we have suitable resources to address the risks we identify.
 - How we will effectively use those resources to complete the plan.
6. The Plan can include assurance and non-assurance rated engagements. This means we can accept consultancy work where this is the best way to support the Council. We set out considerations for accepting such engagements in the *Audit Charter*.
7. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of invariably limited resources. In approving the plan, the Committee recognises this limit. We will keep the Committee abreast of any changes in our assessment of need as we oversee the risks posed to the Council. In particular we will undertake a full evaluation of need during each annual planning round.

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Risk Assessments

8. The Standards direct us to begin our planning with a risk assessment. This assessment must consider risks both from global changes and within the Council. We must also keep our risk assessment current. This plan represents our conclusions now, but we will continue to reflect and consider our response as risks and priorities change across the year. We will report a specific update to Members midway through the year. We may also consult the Committee (or its Chairman) on other significant changes if the need arises.

Global and Sector Risks

9. In considering global and sector risks we draw on various sources. This includes updates provided by relevant professional bodies, such as the Institute of Internal Audit (IIA) and CIPFA. We also consult with colleagues both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South East.
10. These sources give us insight into both the key issues facing local government and how audit teams respond. To show our thinking on these global risks we've highlighted below some of the issues discussed by the IIA in [Risk In Focus 2019](#).



CYBERSECURITY: IT GOVERNANCE & THIRD PARTIES

The Risk

Cybersecurity has been a high-priority risk for many years and this shows no signs of subsiding. Companies are pushing to move away from legacy systems. As approaches to managing cyber risk mature, attention is turning to third-party defensibility.

Swale Context

Mid Kent's ICT strategy makes great use of the 'cloud'. For example the current rollout of Microsoft Office 365 across the authority. Increasingly, individual services are also relying on software hosted by suppliers outside the Council's direct control; Internal Audit with *Pentana* being just one example.

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Mid Kent Audit Response – Cybersecurity & Third Parties

We are now in the second year as members of the Apex Framework; a large professional services contract managed by LB Croydon. This gives us immediate access to specialist and general support at set rates. In 2019/20 we plan to use that specialist support to help look specifically at how our IT service can draw assurance where third parties hold and manage our data and services via our networks.



ANTI-BRIBERY & ANTI-CORRUPTION COMPLIANCE

The Risk

Anti-bribery and corruption risk is longstanding. However, national legislative reforms, coordinated global enforcement by regulators and record-breaking fines are raising the stakes and pushing this issue to the top of the corporate agenda.

Swale Context

The IIA report reflects updated legislation across the world, notably in China, Brazil, France and Spain. While this subject is settled in UK law with the Bribery Act 2010, in Swale in 2019 we may see several new Members. They will need an understanding of how the rules work within the Public Sector.

Mid Kent Audit Response

In our plan for 2019/20 we aim to develop and deliver anti bribery training materials, aimed first at Members and key officer subjects. This training will explain the law, the Council's policy and how we expect people to respond to any concerns on corrupt practices.

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A NEW ERA OF TRADE

The Risk

The IIA's description of this risk highlights protectionist trade tariffs between the USA and China as well as increasing trade sanctions. However, in the UK, this risk touches on Brexit and how UK trade might look in 2019/20 and beyond.

Swale Context

The Council's risk register recognises the threats to the Council's income and Swale's economy through broader economic changes. Swale is, like all Kent Councils, also vulnerable to issues arising from any significant traffic issues cause by delays at ports and the channel tunnel.

Mid Kent Audit Response

The daily changing outlook on Brexit makes including any specific work on that topic in our annual plan a difficult task. However in 2019/20, as in previous years, we have set aside a consultancy budget to deal with emerging issues. Also, audit standards demand we keep our wider plan flexible in the face of developing risks.



AUDITING THE RIGHT RISKS: TAKING A GENUINELY RISK-BASED APPROACH

The Risk

There is a notable inconsistency in the IIA's surveys between organisations' priority risks and where internal audit focuses its time. Chief Audit Executives should therefore re-evaluate with their audit committees whether internal audit works effectively to deliver sound risk-based assurance.

Swale Context

The Council sets out its corporate risks clearly in regular reporting to Senior Officers and Members.

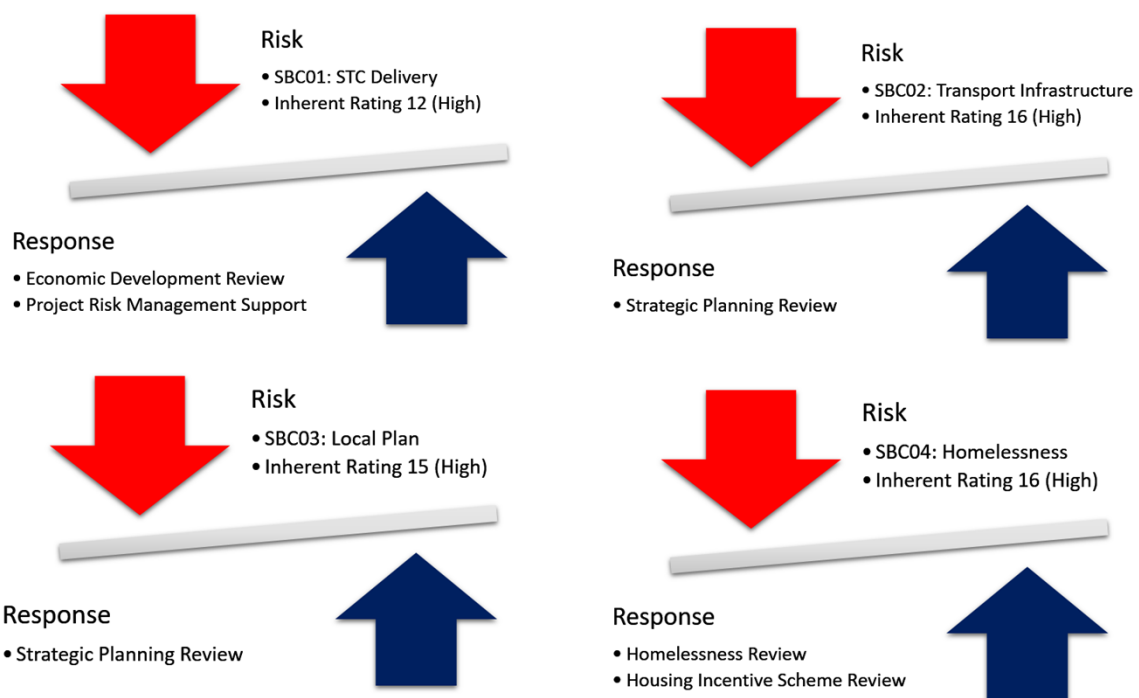
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Mid Kent Audit Response (Auditing the Right Risks)

We seek to draw on the Council's risk information to help us compile and check our planning. Without neglecting more 'routine' matters, we aim to give due weight to corporate risks and add assurance where we can.

Local Risks



11. The Council compiles and surveys a set of Corporate Level Risks. These cover matters that threaten the Council's overall objectives, either because of their severity or the breadth of impact across several services.
12. The chart below sets out those risks, as reported to Cabinet in February 2019, with our planned response to offer assurance in the 2019/20 plan.



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Risk

- SBC05: Skills Gap
- Inherent Rating 9 (Moderate)



Response

- Economic Development Review
- Workforce Planning Review




Risk

- SBC06: Funding Restrictions
- Inherent Rating 12 (High)



Response

- Budget Setting & Monitoring Review
- Continuing risk management support




Risk

- SBC07: Income Generation
- Inherent Rating 9 (Moderate)

Response

- Budget Setting & Monitoring Review



Risk

- SBC08: Emergency Plan
- Inherent Rating 6 (Moderate)




Response

- Emergency Planning Review



Risk

- SBC09: Recruitment & Retention
- Inherent Rating 4 (Low)






Response

- Recruitment Review
- Possible work on workforce planning




Risk

- SBC10: Internal Partnerships
- Inherent Rating 8 (Moderate)



Response

- Possible work on corporate culture and governance




Risk

- SBC11: Cyber Security Incident
- Inherent Rating 16 (High)



Response

- IT Network Security Review
- Possible work on IT backup & recovery




Risk

- SBC12: GDPR
- Inherent Rating 16 (High)

Response

- Information Management review
- Follow up 2018/19 GDPR work



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Audit Risk Review and Consultation

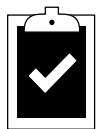
13. We also conduct our own risk assessment looking across all relevant parts of the Council (the “audit universe”). This risk assessment differs from the Council’s own risk approach in that we consider one specific risk:

What is the risk we offer a mistaken opinion because we don’t understand the service?

14. There are two main parts to considering this risk. The first how important the service is to the Council’s overall objectives and controls. Here we consider:



Finance Risk: The value of funds flowing through the service. High value and high volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.



Priority Risk: The strategic importance of the service in delivering Council priorities. For example waste services will be higher risk owing to the direct link with the Council’s objectives.

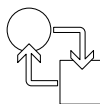


Support Service Risk: The extent to which other services rely on effective function of this part of the Council. For example, many services have a strong reliance on continuing effective IT services.

15. The second part is the likelihood we might hold (or gain) a mistaken view of the service. Here we consider:



Oversight Risk: Considering where other agencies have an interest in regulating and inspecting the service. For example, Mid Kent Legal Services receive regular inspections from the Law Society to keep Lexcel accreditation and so have relatively low risk.



Change Risk: Considering the extent of change the service faces, or has recently experienced. This might be voluntary (a restructure, for example) or imposed (like new legislation).



Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.

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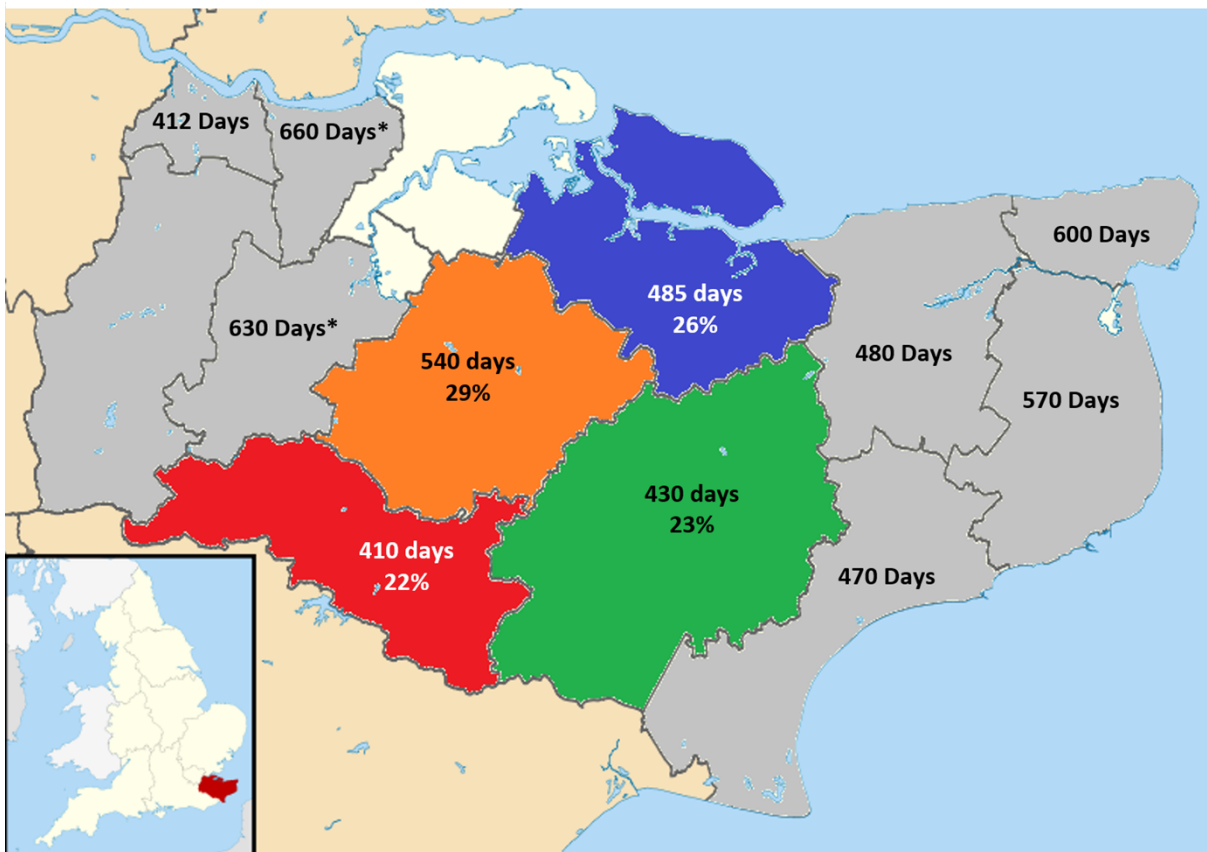
Fraud Risk: The susceptibility of the service to fraud loss. High volume services that deal direct with the public and handle cash, such as licensing for example, are higher risk.

16. The results of these various risk assessments provide a provisional audit plan. We then take this provision plan out to consultation. We meet every Head of Service, Director and the Chief Executive to get their perspective on our assessment and give us updates on their sections.
17. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.
18. We set out the full results of the risk assessment on the audit universe in Appendix 1.

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Resources

19. The audit team is in consultation phase of a planned restructure. We aim to have the new structure in place by 1 April 2019. Currently, though, there is a degree of doubt on the precise extent and arrangement of the team. Please see appendix II for more information on our restructure.
20. However, our planning estimate for 2019/20 says we will likely have available **1,865** days across the partnership. This is a modest (2.5%) increase on 2018/19 total. The most significant variance being we are now using our new audit software, Pentana. We have been using Pentana now since July 2018 and ended the implementation phase in January 2019. We look now to its benefits in adding greater efficiency and quality to our work.
21. The total number of days divides between authorities in the proportions set out in our collaboration agreement:



Data from outside Mid Kent drawn from 2018/19 audit plans. Note that direct comparisons are difficult because what each authority asks of its Internal Audit service differs. In particular authorities with * mark run a combined audit and counter fraud service. However, this illustration serves as an indicative look at internal audit resource levels across Kent to offer assurance that levels in Mid Kent are consistent with delivery of a robust and effective service.

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22. Audit Standards demand we assess whether the resources available – in both quantity and capability – can fulfil our responsibilities. In that assessment we must consider:
- Whether we had enough resource to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation’s risk appetite and profile have changed.
 - How the organisation’s control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
23. Based solely on those internal reasons, we believe we have enough resource to deliver the 2019/20 plan. There is no precise guidance on overall adequacy of internal audit resource. However, as in previous years, we have reviewed provision at other authorities. In Kent, we show that comparison in the map above. We also compare resources through contacts in London Audit Group and beyond. Through the Internal Audit Standards Board, we also consider comparative resourcing in central government, health and the private sector. For example, the table below sets out research conducted by KMPG on the typical size of internal audit services in listed companies across the world:

Type	IA FTE	IA Costs	IA as % Revenue
<i>Company (<\$500m turnover)</i>	4.5 to 7.2	\$613k to \$819k	0.30% to 0.37%
<i>Company (\$500m-\$1b turnover)</i>	5.0 to 7.4	\$737k to \$908k	0.10% to 0.13%
<i>Swale BC (£85m gross cost of services)¹</i>	3.0	£185k	0.22%

24. We must also consider ability of the audit team. The team as a whole now has more formal qualifications than ever before. Ben Davis, previously a Trainee Auditor in the Partnership, qualified with CIPFA in summer 2018 and three others have progressed to the final stage in IIA qualifications. Appendix II sets out how our restructure aims to continue developing the skills of the team.
25. Beyond direct employees, we have also sought access to sources of specialist expertise. In particular, we have used this to supplement our IT audit work. We will continue in 2019/20 to access this support through memberships of Framework agreements with audit firms managed by LB Croydon and Kent CC.

¹ Based on Swale BC’s 26% share of the partnership

MID KENT AUDIT

Proposed Audit & Assurance Work 2019/20

26. Our audit project work comes in two distinct approaches; those that lead to assurance ratings and those that do not. We usually provide a rating as shorthand to describe our findings and the assurance that we can offer. See Appendix IV for the definitions and different levels. However, we recognise circumstances where our work aims principally at supporting work in progress, or providing advice where an assurance rating is not right. We complete full reports for each type and will provide summaries in our reporting to Members.
27. We also undertake various other review and advice tasks over the year. However, we usually do not separately report work that takes under 5 days to complete or does not result in a single distinct report. For example, our work supporting the Council's risk management.
28. In the tables below we set out our planned work for 2019/20. We also provide our planning objectives for each project, setting out in more detail the intended scope for each review. However, we will agree a precise scope with the officer *Audit Sponsor* when we come to undertake the work. See the next section of this report for information on how we complete detailed planning on audit projects and work towards their completion.

Proposed Audit & Assurance Project Work 2019/20	319 days
CHIEF EXECUTIVE	
High Priority Projects (aim to complete 100% during 2019/20)	
Information Management	
<ul style="list-style-type: none">• To follow up from cross-authority advisory work on GDPR in spring 2019.• To also consider other aspects of information management, such as responding to Freedom of Information requests.	
Member Development	
<ul style="list-style-type: none">• To review training programme for new Members.• To also consider training on offer for specific roles.	
Medium Priority Projects (aim to complete 50% during 2019/20)	
Social Media	
<ul style="list-style-type: none">• To consider policy update due during 2019.• To review protocols for dealing with public enquiries received by social media.	

MID KENT AUDIT

DIRECTOR OF REGENERATION

High Priority Projects (aim to complete 100% during 2019/20)

Civil Parking Enforcement

- To review operation of new contract beginning during 2019.
- To consider income reconciliation.

Economic Development

- To consider progress on the Economic Regeneration Framework (primarily focussed on projects outside Sittingbourne Town Centre).
- To review Develop Evolutive system used to manage community grants.

Homelessness

- To follow up any matters arising from 2019 advisory work on compliance with the Homelessness Reduction Act.
- To consider decision making process for housing applications.

Strategic Planning

- To look at how the Council manages interactions with partners co-operatively through the Local Plan.

Medium Priority Projects (aim to complete 50% during 2019/20)

Cemeteries

- To consider overall operation of the service.

Developer Income

- To review controls around monitoring collection and use of developer income from sources such as s106 agreements.

Home Improvement Grants

- To review use of the Staying Put grant.
- To consider future options for the service if the Staying Put grant ends in December 2020.

Planning Enforcement

- To consider service operation post restructure.

Procurement & Commissioning

- To consider contract management across the Council.
- To review effectiveness of Procurement & Commissioning guidance post team restructure due in 2019.

Residents' Parking

- To review controls around residents' parking schemes.

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CHIEF FINANCE OFFICER

High Priority Projects (aim to complete 100% during 2019/20)

Budget Setting & Monitoring

- To consider controls in budget setting process, especially following the summer 2019 Fair Funding Review.
- To review budget monitoring controls in operation across the Council.

Emergency Planning

- To review emergency planning arrangements.
- To, depending on circumstances, consider in particular the Council's co-ordinated response to any extra requirements arising from Brexit.

Health & Safety

- To review compliance with HSE guidance.
- To consider arrangements for health and safety training within the Council.

Medium Priority Projects (aim to complete 50% during 2019/20)

Council Tax

- To examine controls around debt recovery and write-offs.
- To consider controls around award of single person discount.

Discretionary Housing Payments

- To review processing DHP claims, including consistency in decision making.

Property Income

- To consider accuracy of property portfolio and arrangements for collecting and managing licence and rental charges.

MID KENT SERVICES DIRECTOR

High Priority Projects (aim to complete 100% during 2019/20)

IT Network Security

- To consider arrangements for securing the Council's IT networks, with possible particular emphasis on cloud computing and other third party arrangements.

IT Technical Support

- To consider processes for supporting IT use in the Council.
- To also consider rollout of specific developments, such as Windows 365.

Planning Administration

- To examine controls for income collection and reconciliation.

Recruitment

- To consider controls around recruitment, including appropriate safeguarding checks and legal compliance.
- To possibly consider apprentice recruitment and use of the apprenticeship levy.

MID KENT AUDIT

Medium Priority Projects (aim to complete 50% during 2019/20)

Declarations of Interest

- To review arrangements for creating and maintaining appropriate registers of interest.
- To look particularly at advice and support given to new Members.

IT Asset Management

- To review controls on asset management, especially tracking and security for portable devices.

IT Backup & Recovery

- To review controls for periodic IT backups and test arrangements for recovery.

IT Project Management

- To review how IT supports services in delivering projects, including managing its workload.

Workforce Planning

- To consider how the HR service supports the Council in identifying and planning its strategic workforce requirements.

Proposed Assurance Non-Project Work 2019/20

121 days

Risk

- Updating and reviewing Risk Framework
- Regular monitoring and reporting to Senior Officers and Members
- Review of risk identification and reporting within project management
- Member briefings, especially for new Members in 2019

Counter Fraud

- General Policy and Advice, including Whistleblowing and Anti-Corruption
- Fraud Risk Assessment, focusing on payroll and expenses
- Incident specific advice, support and reactive investigation
- Training and development, including for new Members in 2019. Potential subject of focus being on Bribery Act 2010 duties.

Member Support

- Attendance and preparation for Audit Committee and other Members' meetings (including Chairman's briefings).
- Developing and presenting Member briefings on governance issues.

Agreed Actions Follow Up

- Ensuring officers carry out actions as agreed.
- Reporting progress towards implementation to Senior Officers and Members.

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Audit Planning

- Keeping the 2019/20 plan and attendant risk assessments under review.
- Developing audit planning for 2020/21 and beyond.

Proposed Unallocated Contingency 2019/20

45 days

Consultancy

- We aim to keep around 10% of audit days as a consultancy fund to provide general and extra advice to the Council.
- This will include attendance and contribution to officer groups and expansions to audit scopes to cover particular concerns or interests.
- It also covers any investigative work we undertake. We are named in the Council's whistleblowing, data protection and computer use policies as a potential investigator of matters referred to us.

MID KENT AUDIT

Delivering the Audit & Assurance Plan

29. We work in full conformance with the Public Sector Internal Standards. This includes having an internal quality assessment approach comprising both specific review of individual projects and periodic 'cold review', looking back at completed work and taking forward learning to help us improve.

Overseeing Delivery

30. We will report progress on delivering the plan to this Committee part-way through the year. We are also part of the Mid Kent Services Directorate and overseen by a Shared Services Board, with Nick Vickers (Chief Finance Officer) as Swale's representative.
31. We also report each month on various performance indicators detailing our progress and provide quarterly updates to the Strategic Management Team. We include a listing of those indicators, with descriptions, at appendix III to this plan.

Quality & Improvement Plan

32. Although in 2015 the IIA assessed us as fully conforming to the Standards, we have continued to challenge and update how we work. Through these types of review we have kept our full conformance with the Standards and increased productive days by nearly 20% since 2015 without any more than inflationary budget increase.
33. We successfully set up our new Audit Management Software – Pentana – during 2018/19. The whole team now use Pentana to deliver our work and we can see the benefits already in quality and efficiency. There is also a significant improvement in how we can manage and organise our planning. For example, Pentana supports comprehensive risk assessments set out in Appendix I. We also have a greater capacity to 'prioritise' subjects to allow more flexibility as plans change through the year.
34. For 2019/20 our focus for quality and improvement will be on:
 - Continuing to support and strengthen the team's use and understanding of Pentana's audit approach, especially its consistent focus on an Objective -> Risk -> Control -> Test method. Over time, following this approach will deliver a comprehensive understanding of the control environment across the whole authority and lead to significant efficiencies in planning future work.

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- Exploring how best to open Pentana to officers outside audit. The software has a web module that allows officers outside audit to pass information to us direct, for instance updates on progress towards carrying out agreed actions. We hope to pilot some methods for rolling out this feature during 2019/20, mindful of the need to be efficient in our call on officers' time as well as effective management of audit resources.
- Considering how to continue improving our reporting. Pentana allows for many different variants of our reporting tailored suitably to different audiences. In 2019/20 we will explore how we can efficiently use this flexibility to make our reporting have maximum impact in supporting services to improve.

External Quality Assessment

35. Public Sector Internal Audit Standard 1312 demands we undergo an external assessment at least every five years. The IIA undertook our last assessment, in spring 2015, that reported Mid Kent Audit as fully conforming to the Standards. This means our next review must take place by spring 2020. The full text of the Standard is below:

1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

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36. The Standard, and our Charter, both highlight the role of the “Board” (this Committee) in oversight of the assessment. Specific responsibility for its arrangement rests with the Head of Audit.
37. We will set out specific proposals for the assessment later in the year. Currently, our plan considers the following principles.
 - We will seek a properly qualified external assessor for the review with experience of reviewing similar audit services.
 - We will buy the assessment for payment rather than seeking to enter any reciprocal or peer arrangement. We feel this is important to safeguard the independence and professionalism of the review.
 - We will ask the assessor to consider best practice rather than simple conformance. This will give us a sense of where we stand on quality compared to the best of our peers. It will also point to improvements we can look into to develop the service.
 - We will seek one assessment across the whole partnership rather than individual assessments for each authority.
 - We will publish a terms of reference for the assessment to Members before fieldwork.
 - We will publish the final report of the assessment in full to Members. We will include in that publication any action plan proposed by the assessors and our response.
38. We welcome comments from Members on these principles and any specific matters of focus we might consider.

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Appendix I: Audit Universe

The “Audit Universe” is our running record of all services at the Council we might examine. The list below shows its current arrangement including details of previous reviews.

Area	Risk Score	Last Audit	Due	Corp Risk
Top Priority: We aim to complete all of these during 2019/20				
Budget Setting & Monitoring	Moderate	2015/16	Due	SBC06,07
Civil Parking Enforcement	High	2016/17	Due	
Economic Development	High			SBC01,02,05
Emergency Planning	High	2013/14	Overdue	SBC08
Health & Safety	High	2012/13	Overdue	
Homelessness	High	2017/18	Due	SBC04
Information Management	Moderate	2016/17	Due	SBC12
IT Network Security	High	2018/19		SBC11
IT Tech Support	High	2014/15	Overdue	
Member Development	High			
Planning Administration	High	2015/16	Due	
Recruitment	Moderate	2013/14	Overdue	SBC02
Strategic Planning	High			SBC01,02,03
Medium Priority: We aim to complete around half of these during 2019/20				
Cemeteries & Crematoria	Moderate	2015/16	Overdue	
Council Tax	Moderate	2016/17	Due	
Declarations of Interest	Low	2014/15	Due	
Developer Income	Moderate	2016/17	Due	
Discretionary Housing Payments	Moderate	2015/16	Due	
Home Improvement Grants	High	2012/13	Overdue	
IT Asset Management	High	2011/12	Overdue	
IT Backup & Recovery	High	2017/18	Due	
IT Project Management	High			
Lettings & Leaseholds	High	2016/17	Due	
Planning Enforcement	Moderate	2016/17	Due	
Procurement & Commissioning	Moderate	2015/16	Overdue	
Property Income	Moderate	2016/17	Due	
Residents' Parking	High	2016/17	Not Due	
Social Media	Moderate	2016/17	Due	
Workforce Planning	Moderate			SBC02

MID KENT AUDIT

Area	Risk Score	Last Audit	Due	Corp Risk
Low Priority: Keep under review but not likely to undertake further work in 2019/20				
Air Quality	Low			
Business Continuity	High	2017/18	Not Due	SBC08
Communications & Marketing	Moderate			
Contract Management	Low			
Corporate Governance	Low	2017/18	Not Due	SBC10
Customer Services	Moderate	2016/17	Due	
Debt Recovery Service	High	2018/19	Not Due	
Electoral Registration	Low			
Equalities	Moderate			
Housing Incentives	High	2017/18	Not Due	
Parking Income	High	2017/18	Not Due	
Performance Management	Low	2015/16	Due	
Property Acquisition & Disposal	Moderate			
Public Consultations	Moderate			
Tourism Support	Moderate			
Training & Development	Moderate	2016/17	Due	
Universal Credit	Moderate	2018/19	Not Due	
Waste Collection	High	2018/19	Not Due	
Website Management	Moderate			
Very Low Priority: Recent assurance gained and no fresh risk indicated				
Absence Management	Moderate	2018/19	Not Due	
Building Control	Low	2016/17	Not Due	
Business Rates	Moderate	2017/18	Not Due	
Community Support	Moderate	2018/19	Not Due	
Community Support	Moderate	2018/19	Not Due	
Conservation & Heritage	Moderate	2018/19	Not Due	
Council Tax Reduction Scheme	Moderate	2018/19	Not Due	
Creditors	Moderate	2017/18	Not Due	
Debtors	Moderate	2018/19	Not Due	
Facilities Management	Moderate	2017/18	Not Due	
General Ledger	Moderate	2017/18	Not Due	
Grounds Maintenance	Moderate	2018/19	Not Due	
Housing Benefit	Moderate	2017/18	Not Due	
HR Policy Compliance	Moderate	2018/19	Not Due	
Insurance	Moderate	2018/19	Not Due	
Land Charges	Moderate	2017/18	Not Due	
Leisure Services	Moderate	2017/18	Not Due	

MID KENT AUDIT

Area	Risk Score	Last Audit	Due	Corp Risk
Licensing	Moderate	2018/19	Not Due	
Payroll & Expenses	Moderate	2017/18	Not Due	
Pre-Application Planning	Moderate	2018/19	Not Due	
Project Management	Moderate	2018/19	Not Due	
Safeguarding	Moderate	2017/18	Not Due	
Staff Performance Management	Moderate	2018/19	Not Due	
Taxi Licensing	Moderate	2018/19	Not Due	
Treasury Management	Moderate	2018/19	Not Due	

Appendix II: Audit Team and Restructure

We are proud in the Audit team of having a strong record in supporting development and achievement within our team. With that in mind we periodically revisit arrangements to ensure we, for now and the future, are set up to continue delivering an efficient and effective service. We are therefore currently consulting on a restructure proposal that aims to:

- Give more supervising and mentoring opportunities to our Senior Auditors. This will both support junior staff and make the role a better development step towards management for those with that ambition.
- Create Audit Apprentice roles, linked to the Level 7 Internal Audit Professional Scheme recently approved by the Department for Education. This scheme, which lasts up to four years, eventually provides apprentices with all the professional qualifications they would need to rise to Head of Audit level as well as a Master's degree in Audit & Consultancy.
- Create an annual pool of funds we can use flexibly to support different needs at partner authorities. This could be used, for instance, in securing specialist audit support on key projects. It could support authorities in delivering savings targets. Or get specific training to help existing members of the audit team.

The consultation period ends mid-March with new arrangements in place from the start of 2019/20. We will report to Members on results, and details of our new structure, in our annual reporting this coming June.

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Appendix III: Performance Indicators

We are consulting on new performance indicators for 2019/20. Our proposed indicators for reporting are:

Training Take-Up

We recognise the success of our service is down to the quality of our people. The Council's working environment, its risks and the practice of professional audit keeps changing and we support and encourage our team to continue developing new skills.

We expect each person to devote a minimum 5% of their time to training and development, along a plan agreed with their line manager. This indicator measures how well people can take up and complete that training plan.

Overall Plan Progress

Each audit plan promises a certain number of days productive audit work to each authority. This indicator measures how many productive days we have delivered against that plan target.

Audit Feedback (Quantitative)

Feedback from audit sponsors and others is a key indicator in letting us know how well our service meets the needs of each Council. This quantitative measure records a simple 'satisfied/dissatisfied' from key stakeholders for each audit report. It sits alongside a broader range of qualitative measures giving us more detailed feedback.

Prompt Reporting

Effective findings describe the world as it is now. Undue delay limits how much our findings can help the Council improve or add risk with issues unaddressed.

This indicator measures the time between completion of our fieldwork and issue of the final report. So it includes both the time spent on the audit side creating a draft report and the service side in framing its response. We typically aim to get from fieldwork to final report in 30 days.

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Appendix IV: Assurance Ratings

Assurance Ratings 2019/20 (unchanged since 2014/15)

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

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Recommendation Ratings 2019/20 (unchanged since 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.

Audit Committee Meeting		Agenda Item: 7
Meeting Date	13 March 2019	
Report Title	Annual Risk Management Report 2019/20	
Cabinet Member	Cllr Andrew Bowles - Leader	
SMT Lead	Nick Vickers – Chief Finance Officer	
Head of Service	Rich Clarke – Head of Audit Partnership	
Lead Officer	Alison Blake – Audit Manager	
Key Decision	No	
Classification	Open	
Forward Plan	Reference number: N/A	
Recommendations	1. That the Audit Committee provides comments on the operation of the risk management framework.	

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to provide information to members of the Audit Committee on the Council’s risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process.

- 1.2 Since the implementation of a new risk management framework in July 2015 a great deal of work has been undertaken to embed stronger risk management and to ensure that all of the Council’s risks are captured and managed using the comprehensive risk register. As part of this work we have worked with Strategic Management Team (SMT) and Heads of Service to identify and assess the corporate level risks facing the Council as it strives to deliver the Corporate Plan. We have also worked alongside the Council’s service planning process to identify operational risks.

- 1.3 The report attached in Appendix I provides an overview of the risk management process as operated throughout the year. To demonstrate this process information relating to the Council’s risk profile is included in the report.

2 Background

- 2.1 Since implementing the **risk management framework** in July 2015 we have been providing regular updates to Officers and Members on key risks, and the actions being taken to address and manage those risks. This includes all Corporate risks and high level (red and black) risks.

- 2.2 We (Mid Kent Audit) have been working with the Council over the course of 2018/19 to update and maintain the comprehensive risk register. Including updating the corporate risks, and continued reporting and communication of key risk information. The most recent update was to Informal Cabinet in September 2018 and SMT in February 2019.

2.3 Throughout the year we have continued to work with the Council to create a positive risk culture, and ensure that the risk management process adds value. It is appropriate that risk information is reported to Members, via Audit Committee. The attached report (Appendix I) is the third update report to this Committee and seeks to bring members up to date with the work undertaken during 2018/19.

3 Proposal

3.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.

3.2 We therefore propose that the Committee notes the arrangements in place and provides comments on the operation of the risk management process.

4 Alternative Options

4.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.

4.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.

5 Consultation Undertaken

5.1 The risk management framework was designed through consultation with SMT and more broadly through consultation with Heads of Service.

5.2 All risk owners have been involved in the identification and assessment of the risks on the register.

6 Implications

Issue	Implications
Corporate Plan	Effective risk management is part of the Council's governance framework. The purpose of the risk management process is to ensure that key risks are identified and appropriately managed as the Council pursues its Corporate objectives.
Financial, Resource and Property	Investment in developing risk management arrangements are being met from existing resources within the Mid Kent Audit partnership. No implications identified at this stage.

Legal and Statutory	None identified at this stage
Crime and Disorder	None identified at this stage
Sustainability	None identified at this stage
Health and Wellbeing	None identified at this stage
Risk Management and Health and Safety	This report is about risk management. No H&S implications identified at this stage.
Equality and Diversity	None identified at this stage

7 Appendices

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

- Appendix I: Annual Risk Management Report 2018/19

8 Background Papers

- Risk Management Framework

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Annual Risk Management Report

Audit Committee

March 2019



Introduction

Effective risk management is a vital part of the Council's governance, and contributes greatly to the successful delivery of services and key priorities. The Council has always recognised and supported the need to have effective risk management processes, and so, in early 2015 sought to update and refresh procedures and guidance.

As part of this work, we (Mid Kent Audit) took lead responsibility to co-ordinate the update across the Council and embed revised risk management processes. Our role includes reporting regular updates to Officers and Members, through the Strategic Management Team (SMT), Informal Cabinet and the Audit Committee, providing workshops and training, and helping to ensure risks are being effectively managed.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. Executive management has the role to review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed. As those charged with governance, the Audit Committee seeks assurance that the Council operates effective risk management processes.

Purpose

In March last year we reported our second risk report to the Audit Committee. This report builds on our previous update and seeks to provide Members with an overview of the Council's risk management arrangements, thus enabling the committee to fulfil the responsibilities as set out in the Terms of Reference:

"To monitor the effective development and operation of risk management and corporate governance in the Council."

This report should be used to provide assurance to Members that the Council has effective risk management, and that risks identified through that process are managed, and monitored appropriately.

Risk Management Process

The [risk management framework](#) is a guide that sets out how the Council identifies, manages and monitors risks.

In summary, the risk management process for the Council can be broken down into the following key components:



All risks are recoded on the comprehensive risk register, and it is this register that is used to generate risk information across the Council.

We generally identify risks at two levels, at an operational level and at a corporate level:

Corporate level risks are more strategic in nature; the management of these risks is co-ordinated and overseen by SMT quarterly and Informal Cabinet twice a year. By definition, these risks inherently carry a higher impact level as they affect multiple services. They are the risks that could prevent the Council from achieving its ambitions and objectives.

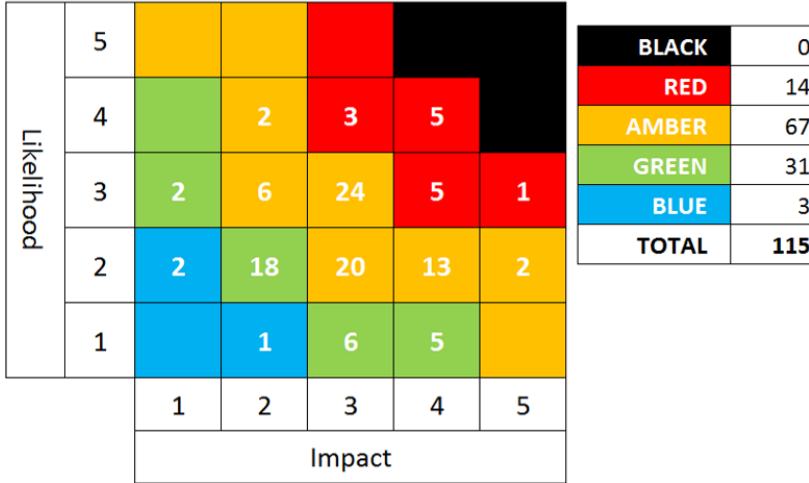
Operational risks are principally identified as part of the service planning cycle each year. Throughout the year these risks are reviewed, updated and reported to SMT quarterly. Operational level risks are more directly linked with our day to day operation of services. However, operational risks can nonetheless have potential for significant impact. High level operational risks (those **red** and above) are monitored by Informal Cabinet twice a year.

Risk Profile

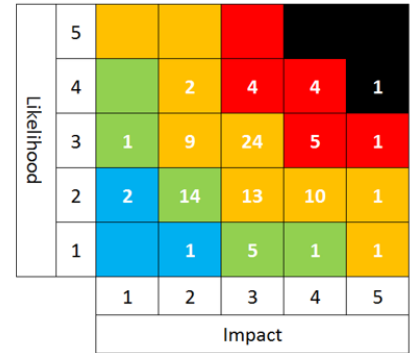
The matrices below illustrate how the risk profile (the actual number of risks on the register) of the Council has changed throughout the year. This is based on the *inherent* risk, i.e. the risk impact and likelihood considering any existing controls in place to manage the risk, but before any further planned controls are introduced. The impact and likelihood scale criteria are detailed within Appendix II below.

The change in the overall risk profile of the Council demonstrates how action is taken to manage risks, to ensure the completeness of the risk register and to capture emerging risks.

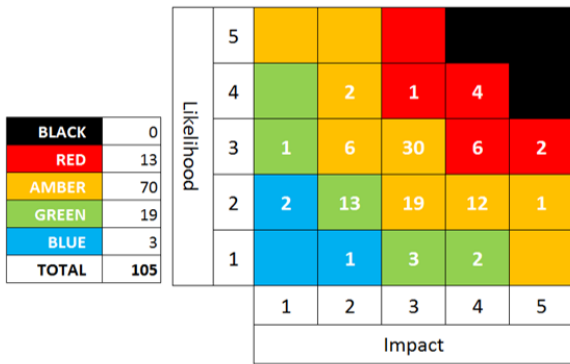
Risk Profile (Inherent) - February 2019



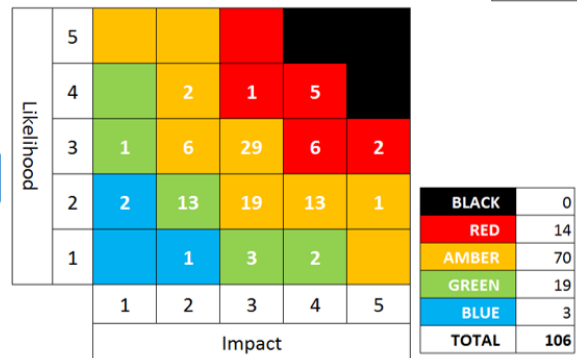
Risk Profile (Inherent) - March 2018



Risk Profile (Inherent) - October 2018



Risk Profile (Inherent) - July 2018



Corporate Risks

In July 2017 we ran a workshop to refresh the Council's corporate risks. This sought to identify any new or emerging risks and any risks which were no longer relevant due to successful management or the passage of time. There have been no significant changes to the Council's Corporate Plan over the last year so a new workshop has been scheduled for summer 2019.

While a workshop has not been run to refresh the whole corporate risk register the risks have been reviewed at least quarterly by SMT. The corporate risk register was reported to Informal Cabinet in September 2018 and will be reported again in April 2019.

The following table shows the Council's corporate risks (which form part of the matrices above) as reported to SMT in February 2019. The detail of these risks has been reviewed and discussed at Informal Cabinet. However, this illustrates that action is being taken to manage the risks and that processes are in place to ensure new emerging issues are captured or significant operational risks are appropriately escalated.

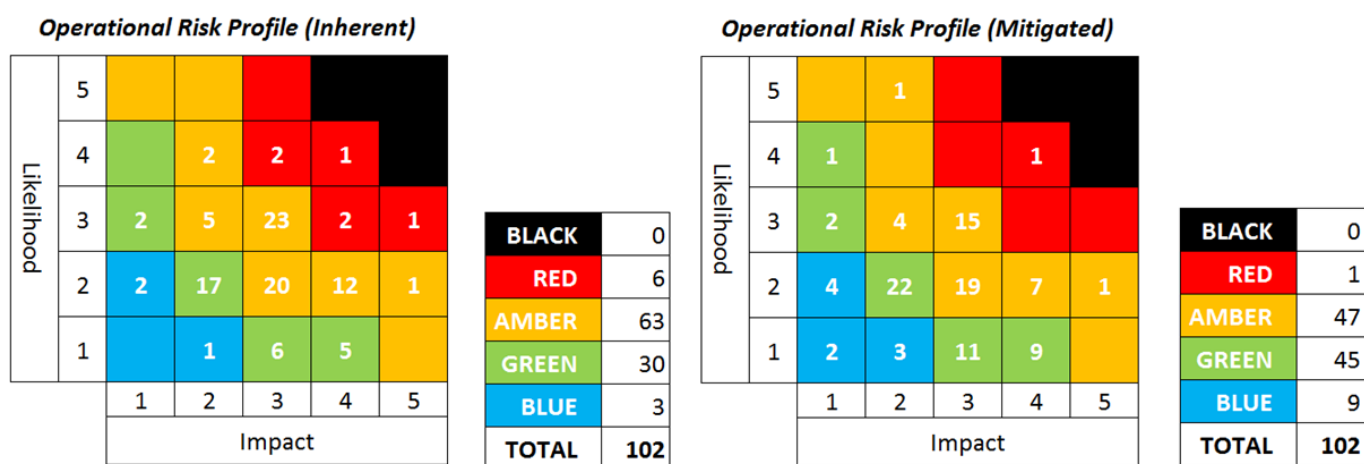
Risk Title		Risk Rating (Impact x Likelihood)						Overall Direction of Travel
		Inherent Mar-18	Mitigated Mar-18	Inherent Sep-18	Mitigated Sep-18	Inherent Feb-19	Mitigated Feb-19	
a	STC Delivery	(4 x 3) 12	(4 x 2) 8	(4 x 3) 12	(4 x 2) 8	(4 x 3) 12	(4 x 2) 8	↔
b	Transport Infrastructure	(4 x 4) 16	(4 x 2) 8	(4 x 4) 16	(4 x 2) 8	(4 x 4) 16	(4 x 3) 12	↕
c	Local Plan	(5 x 3) 15	(4 x 2) 8	(5 x 3) 15	(4 x 2) 8	(5 x 2) 10	(4 x 2) 8	↕
d	Homelessness	(4 x 4) 16	(3 x 4) 12	(4 x 4) 16	(3 x 4) 12	(4 x 4) 16	(3 x 4) 12	↔
e	Skills Gap (Borough)	(3 x 3) 9	(3 x 3) 9	(3 x 3) 9	(3 x 3) 9	(3 x 3) 9	(3 x 3) 9	↔
f	Funding Restrictions	(4 x 3) 12	(3 x 3) 9	(4 x 3) 12	(3 x 3) 9	(4 x 3) 12	(3 x 3) 9	↔
g	Income Generation	(3 x 2) 6	(3 x 2) 6	(3 x 2) 6	(3 x 2) 6	REMOVED		
h	Emergency Plan	(2 x 3) 6	(2 x 2) 4	(2 x 3) 6	(2 x 2) 4	(2 x 3) 6	(2 x 2) 4	↔
i	Recruitment & Retention	(2 x 2) 4	(2 x 2) 4	(2 x 2) 4	(2 x 2) 4	(2 x 2) 4	(2 x 2) 4	↔
j	Business Transformation	(3 x 3) 9	(3 x 2) 6	(3 x 4) 12	(3 x 3) 9	(3 x 4) 12	(3 x 3) 9	↑
k	External Partners	(3 x 4) 12	(3 x 4) 12	REMOVED				
l	Partnerships (internal)	(4 x 2) 8	(4 x 2) 8	(4 x 2) 8	(4 x 2) 8	(4 x 2) 8	(4 x 2) 8	↔
m	Cyber Security Incident	(4 x 4) 16	(4 x 3) 12	(4 x 4) 16	(4 x 3) 12	(4 x 4) 16	(4 x 3) 12	↔
n	General Data Protection Regulation	(4 x 4) 16	(4 x 3) 12	(4 x 4) 16	(4 x 3) 12	(4 x 4) 16	(4 x 3) 12	↔
o	Air Quality Action Plan	N/A				(4 x 3) 12	(3 x 2) 6	⬇

Operational Risks

Operational risk registers are in place for each service and are fully reviewed and updated annually in line with service planning. The last update was completed by May 2018 and the current update is underway. Throughout the year risks have been reviewed regularly in line with their risk score. **Red** and above risks are reviewed quarterly and **Amber** risks six-monthly. All other risks are reviewed and updated as needed or at least annually.

Inherent **Red** and above risks are monitored quarterly by SMT and reported to Informal Cabinet alongside the Corporate risks. Reports were taken to SMT in July 2018, October 2018, February 2019 and will be taken in April 2019.

The overall operational risk profile (as at February 2019) is shown in the below matrix.



Next Steps

Risk management is a continuous process, and to be valuable it must be updated and maintained. The Risk management framework has been operating for 3 years, and so it is currently being reviewed and, where necessary, updated to ensure that it remains fit for purpose.

Moving forward into 2019/20, the following areas will be our focus in order to further strengthen the risk management process and develop a positive risk culture across the Council:

1. **Develop a training programme:** We (Mid Kent Audit) have continued to facilitate workshops, and deliver risk sessions as and when requested. However, developing the overall knowledge and expertise for risk management across the Council requires 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 with the framework and procedures. In addition to this we will look to run a briefing session for Members;
2. **Annual Corporate Risk Workshop:** Following agreement of the new Corporate Plan a risk workshop will be run to facilitate a review of the Council's corporate risks;
3. **Launch project risk management guidance:** This is currently in progress and a draft will be taken to SMT in the future. This will aim to standardise project risk management, and ensure that project failure risks are appropriately monitored and reported;

There has been substantial progress over the last 3 years in how the Council manages risk. This wouldn't have been possible without the great deal of positive engagement and support from Senior Officers and Managers in the Council. So, we'd like to take this opportunity to thank officers for their continued work and support.

Definitions for Impact and Likelihood

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

RISK IMPACT

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

RISK LIKELIHOOD

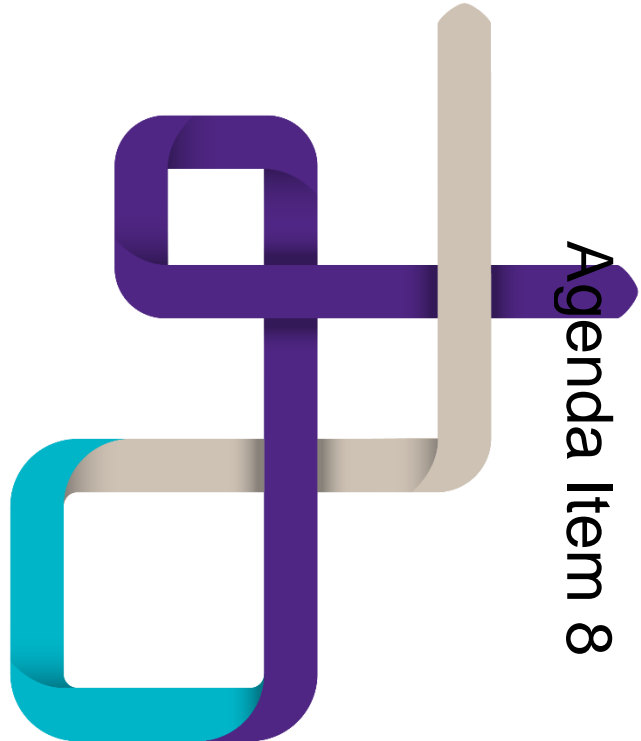
Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur;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

Certification Report

Year ending 31 March 2018

Swale Borough Council
February 2019

Page 47



Contents

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Page 48

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Section

1. Summary of Findings

Page

3

Appendices

A. Work performed 2017/18

5

B. Outcomes from testing

7

C. Fees

9

D. Action Plan

10

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

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Summary of Findings

Introduction

Certain claims and returns submitted by local authorities require auditor certification to help confirm the authority's entitlement to funding.

For 2017/18 the only claim requiring auditor certification at Swale Borough Council ('the Council') was the Council's claim for housing benefit subsidy.

Auditors are required to report the outcomes of certification work to those charged with governance. This report summarises the outcomes from our certification work on the Council's housing benefit subsidy claim for 2017/18.

Approach and context to certification

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments Ltd (PSAA) took on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015.

Our certification work has been completed using the HB COUNT framework.

In 2017/18 the Council's draft claim was for housing benefit subsidy of £51.2m.

Key messages

The Council's draft claim for housing benefit subsidy, and the final certified claim, were submitted within the deadlines specified by the Department for Work and Pensions (DWP).

Following our certification work there were only minor amendments to the subsidy claim. The net impact was to reduce the amount of subsidy claimed by £111.

Our testing for a sample of cases identified a small number of errors. Under the HB Count framework we extrapolated the potential impact of these errors on the overall claim and reported this to DWP using a qualification letter. It is for DWP to decide on any actions arising out of the qualification letter. However, should the extrapolations be applied in full the impact would be to reduce subsidy by £148.

Further information on the outcomes from our certification work is provided at Appendices A and B.

Previous year recommendations

We review action taken on recommendations arising from our previous year certification report. We concluded that you had taken appropriate action on the recommendations made in our 2016/17 report.

Certification fees

For each Council an indicative scale fee for certification work is set by PSAA.

The 2017/18 indicative scale fee for the Council's housing benefit subsidy claim reported in our Audit Plan of February 2018 was £23,626.

We are not proposing any amendment to the indicative scale fee. Our final fee for the 2017/18 certification work will therefore be £23,626 (Appendix C).

The way forward

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

Acknowledgements

We would like to take this opportunity to thank officers for their assistance and co-operation with our 2017/18 certification work.

Grant Thornton UK LLP

February 2019

Appendices

Page 50

Appendix A: Work performed 2017/18

Claim or return	Comments
<p>Housing benefit subsidy claim</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 51</p>	<p>Overall approach</p> <p>The PSAA HB COUNT certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Two initial samples are tested (all transactions in year)</p> <ul style="list-style-type: none"> - 20 rent allowance cases - 20 rent rebate (tenants of non-HRA properties) cases. <p>Where errors are identified from this initial testing, and there is not enough information to agree a claim amendment or assess the impact of the error across the population as a whole, then additional testing is performed (either on a further sample of 40 cases, or on all relevant cases, depending on the number of cases where the error could have occurred) for the issue giving rise to the error.</p> <p>Under the PSAA framework auditors are also required to perform sample testing to cover previous year issues and confirm that these do not affect the current year's claim.</p> <p>Where the impact of errors can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then the issue is reported to DWP using a qualification letter.</p>

Appendix A: Work performed 2017/18 (cont.)

Claim or return	Comments
<p>Housing benefit subsidy claim (continued)</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 52</p>	<p>Claim Amendments</p> <p>Minor amendments to the 2017/18 claim were agreed as follows;</p> <p>(a) A trail to support an amount of £111 for uncashed payments could not be provided. It was agreed to remove this amount from the claim.</p> <p>(b) Minor negative amounts at two cells were moved to other cells on the claim form. There was no impact on subsidy.</p> <p>Outcomes from claims testing</p> <p>A summary of the outcomes from our 2017/18 testing of individual claims is included at Appendix B.</p> <p>(a) We identified a number of underpayments. We report these to DWP, but the errors have no impact for subsidy purposes as subsidy cannot be claimed for benefit which has not been awarded.</p> <p>(b) For errors where the impact on subsidy cannot be quantified exactly then we extrapolate the impact on the claim and report this to DWP using a qualification letter. It is for DWP to decide on any further action required.</p> <p>In 2017/18 we identified four issues requiring extrapolations. For two issues the extrapolations increased the total for local authority overpayments, but as this total remained below a threshold set by DWP there was no potential impact on subsidy. The impact of applying the two remaining extrapolations would be to reduce subsidy claimed by £148.</p>

Appendix B: Outcomes from testing of benefit claims

	Cases tested	Errors identified	
Follow up testing was performed in the following areas to address issues arising from our 2016/17 certification work.			
2016/17 Follow up testing: Rent allowances			
Calculation errors relating to working tax credits	40	0	
Calculation errors relating to earned income	40	9	Six cases resulted in an overpayment of benefit and three cases in an overpayment. For the overpayments the impact across all relevant claims was extrapolated and reported to DWP.
2016/17 Follow up testing: Non HRA			
Errors where the authority had underclaimed subsidy because, although eligible rent exceeded the LHA cap, the authority had not applied the full LHA cap, or had used an amount lower than the full LHA cap in calculations.	40	0	

Page 53

Appendix B: Outcomes from testing of benefit claims

	Initial testing: Errors identified	Additional testing sample	Additional testing: Errors identified	
2017/18 Initial testing: Rent Allowances				
Testing on an initial sample of 20 benefit cases identified the following errors;				
Extended payment awarded although the relevant criteria had not been met.	1	40	0	The error resulted in an overpayment; the impact was extrapolated and reported to DWP.
2017/18 Initial testing: Rent rebates (tenants of non-HRA properties)				
Testing on an initial sample of 20 benefit cases identified the following errors;				
Calculation errors relating to earned income.	1	40	2	Two errors had no impact on benefit. The remaining error led to an overpayment; the impact was extrapolated and reported to DWP.
Dependent's allowance incorrectly calculated.	1	40	0	The error led to an underpayment of benefit.
Errors where the authority had underclaimed subsidy because, although eligible rent exceeded the LHA cap, the authority had not applied the full LHA cap, or had used an amount lower than the full LHA cap in calculations.	1	Not required		No further testing as already covered by 40+ follow-up testing of previous year issue. The error identified from initial testing led to an overclaiming of subsidy; the impact was extrapolated and reported to DWP.

Appendix C: Fees

Claim or return	2016/17 fee	2017/18 indicative fee	2017/18 actual fee	Variance with previous year	Explanation for variance
	£	£	£	£	
Housing benefit subsidy claim	18,611	23,626	23,626	+5015	Increase in PSAA scale fee to reflect additional work associated with error cases.
Total	18,611	23,626	23,626	+5015	

Page 55

Appendix D: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 56	Housing benefit subsidy scheme			
	1 Officers should consider the nature of the errors identified from certification testing and consider the need for any training or supervision to help reduce errors in future years.	Medium	Training will be carried out to help reduce errors in the future	Revenues and Benefits Manager
	2 Benefit records for individual claimants should be amended in the current year for all errors identified from 2017/18 certification testing.	Medium	All benefit records for individual claimants have been amended for all errors identified from 2017/18 certification testing.	Revenues and Benefits Manager



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Audit Progress Report and Sector Update

Swale Borough Council
Year ending 31 March 2019
Page 59
March 2019



Contents

Section	Page
Introduction	3
Progress at March 2019	4
Local government audit: Method statement	5
Audit Deliverables	7
Sector Update	8
Links	16

Introduction



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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 March 2019

2017/18 Certification work

Our work to certify the Council's 2017/18 housing benefit claim has now been completed. Our 2017/18 Certification Report is included as a separate item on today's agenda.

2018/19 Audit

Our 2018/19 Audit Plan is included as a separate item on today's agenda.

As part of our ongoing planning we will also continue to:

- hold discussions with management to inform our risk assessment;
- review minutes and papers from key meetings; and
- review relevant sector information to ensure that we capture any emerging issues and consider these as part of audit planning.

Our interim audit work is planned for March 2019.

PSAA Contract Monitoring

The Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts in 2018/19. PSAA appointed Grant Thornton as auditors.

PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the presentation at pages 5-6.

We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Local Government audits 2018/19 and beyond

Audit 2018/19

Our team



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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Page 64

"I have found Grant Thornton to be very impressivethey bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



We are the largest supplier of external audit services to local government

We audit over 150 local government clients

We signed 95% of our local government opinions in 2017/18 by 31 July

In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of experience

We are well connected to MHCLG, the NAO and key local government networks

We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice

We have a strong presence across all parts of local government including blue light services

We provide thought leadership, seminars and training to support our

We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists

We provide technical and personal development training

We employ over 80 Public Sector trainee accountants

Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing

We are fully compliant with ethical standards

Your audit team has passed all quality inspections including QAD

We have specialist leads for Public Sector Audit quality and technical

We provide national technical guidance on emerging auditing, financial reporting and ethical areas

Specialist audit software is used to deliver maximum efficiencies



Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Our fee letter confirms the audit fee for 2018/19.	July 2018	Issued July 2018
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	Issued March 2019
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

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.

Page 8

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 local government sections on the Grant Thornton website [here](#)

Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

Page 67
In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

<https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/>

<https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/>

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

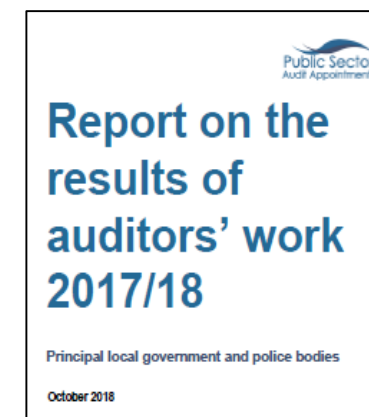
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

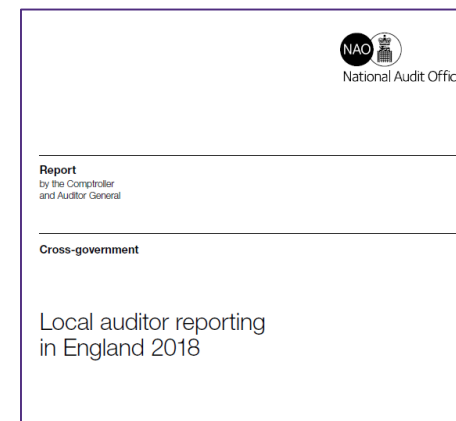
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What's the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

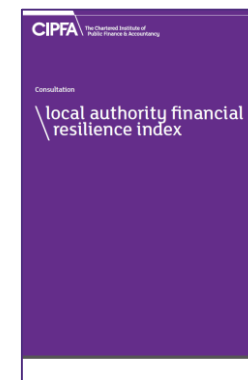
The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



Links

Grant Thornton website links

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

<https://www.grantthornton.co.uk/en/industries/public-sector/local-government/>

<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>

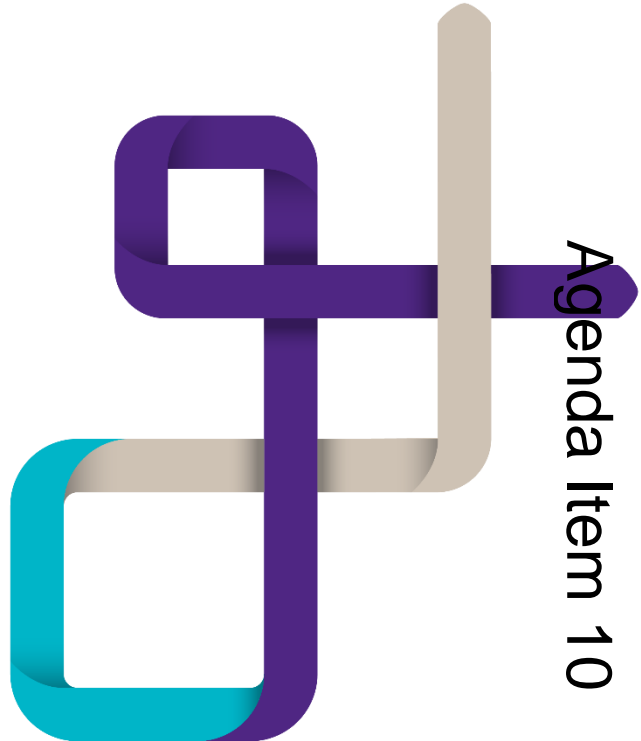
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External Audit Plan

Year ending 31 March 2019

Swale Borough Council
February 2019

Page 77



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Page
78

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Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks identified	5
4. Other matters	7
5. Materiality	8
8. Value for Money arrangements	9
9. Audit logistics, team & fees	10
10. Early Close	11
11. Independence & non-audit services	12

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Swale Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Swale Borough Council. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- the revenue cycle includes fraudulent transactions (NB this is an presumed risk under ISA240 which can be rebutted for the Council)
- management override of control (this is a presumed risk for all entities under ISA240)
- valuation of property, plant and equipment
- valuation of pension fund net liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1,703,000 (PY £1,711,000), which equates to approximately 2% of your gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £85,000 (PY £86,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks:

- continuing to maintain an effective financial planning framework to manage the impact of reductions in government funding
- taking appropriate action to mitigate the risks associated with Brexit.

Audit logistics

Our interim visit will take place in March 2019 and our final visit will take place in June/July 2019. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £46,769 (PY: £60,739).

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Key matters impacting our audit

Factors

The wider economy and financial pressures

Local authorities continue to face significant financial pressures associated with reductions in government funding and increasing cost pressures.

Locally these pressures have required you to agree additional service savings and to make contributions from General Fund balances to support the revenue budget in both 2018/19 and 2019/20. However, your forecasts indicate that increases in business rate income and in rental income from the Sittingbourne Town Centre (STC) redevelopment will help you to achieve a budget surplus in the medium term.

You have a clear capital strategy based on the Council's wider redevelopment and regeneration objectives. You also have a prudent approach to funding the capital costs associated with the STC redevelopment, and are seeking to minimise the use of external borrowing until future rental streams increase following the end of rent-free periods.

Political uncertainty: Brexit

The government is in continuing negotiations with the EU over Brexit, and there is uncertainty on the future impact for public services and the wider economy.

The Council will need to ensure that it is prepared for all outcomes, considering any impact on contracts and service delivery and on its support for local people and businesses.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider the action taken by the Council, including wider preparations across local authorities in Kent.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Swale Borough Council.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • identify and test unusual journal entries for appropriateness • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Council regularly revalues its land and buildings to ensure that carrying value is not materially different from current value. Investment properties are revalued annually at fair value. These valuations represent a significant estimate by management in the financial statements.	<p>We will:</p> <ul style="list-style-type: none">• review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work• consider the competence, expertise and objectivity of any management experts used• test that revaluations made during the year are input correctly into the Council's asset register• evaluate the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value.• consider any valuation issues associated with the STC redevelopment scheme.
Valuation of pension fund net liability	The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.	<p>We will:</p> <ul style="list-style-type: none">• identify the controls put in place by management to ensure that the pension fund liability is not materially misstated.• assess the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation.• assess the accuracy and completeness of the information provided to the actuary• undertake procedures to confirm the reasonableness of the actuarial assumptions made• check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2018/19 financial statements, and to consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act
 - application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Page
83

Other material balances and transactions

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

Going concern

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

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

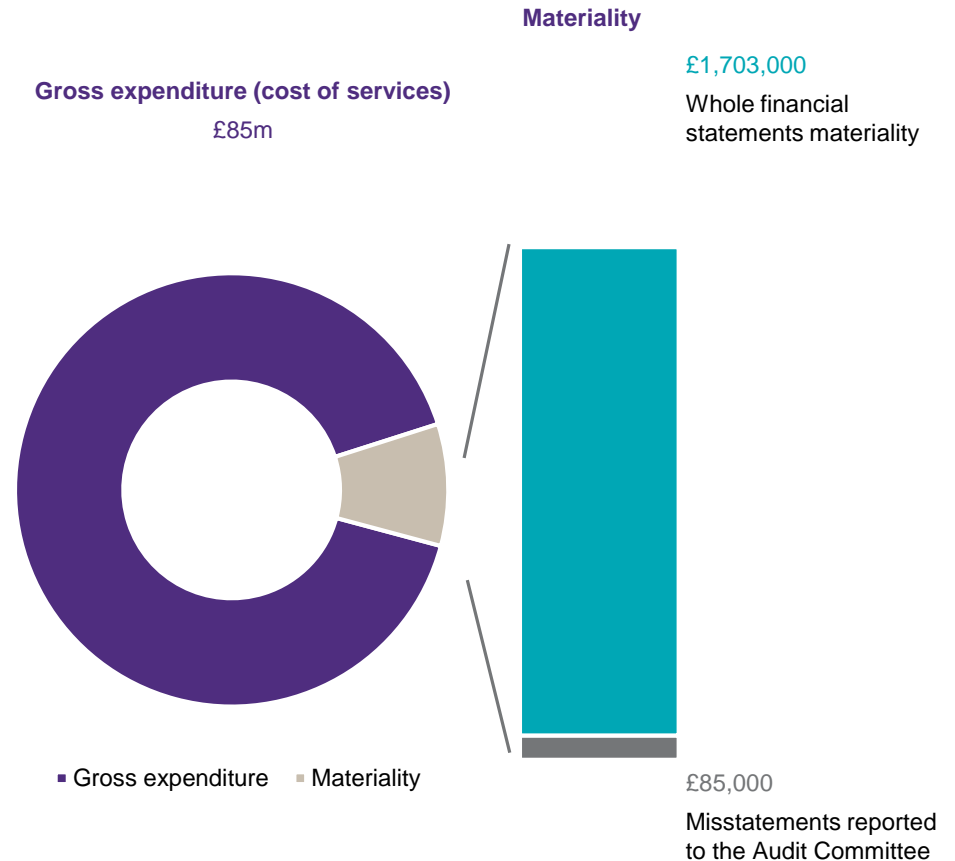
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £1,703,000 (PY £1,703,000). We design our procedures to detect errors in specific accounts at a lower level of precision.

We do consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £85,000 (PY £86,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

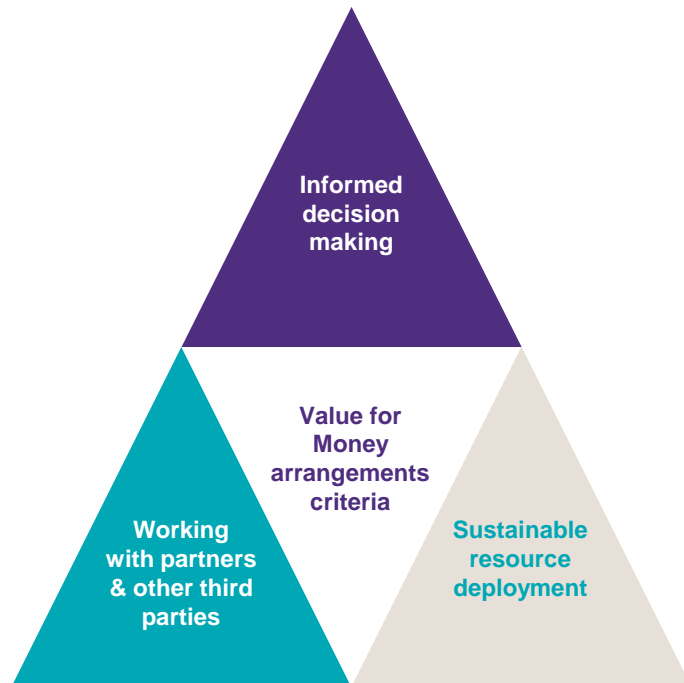
The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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

Page 85



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Financial sustainability

You continue to face significant financial pressures associated with reductions in government funding. You have taken a number of measures over recent years to address these issues, both to reduce costs and generate additional income. Under your medium term financial plan you will make contributions from General Fund balances to support the revenue budget in 2018/19 and 2019/20. However, your plans indicate increases in business rate funding and rental income from the Sittingbourne Town Centre redevelopment will help you achieve a budget surplus in the medium term.

The continued strength of your financial planning framework is key to maintaining a sustainable financial position whilst delivering your key objectives over the medium term.

We will update our understanding of your medium term financial plan and review the supporting information trails.

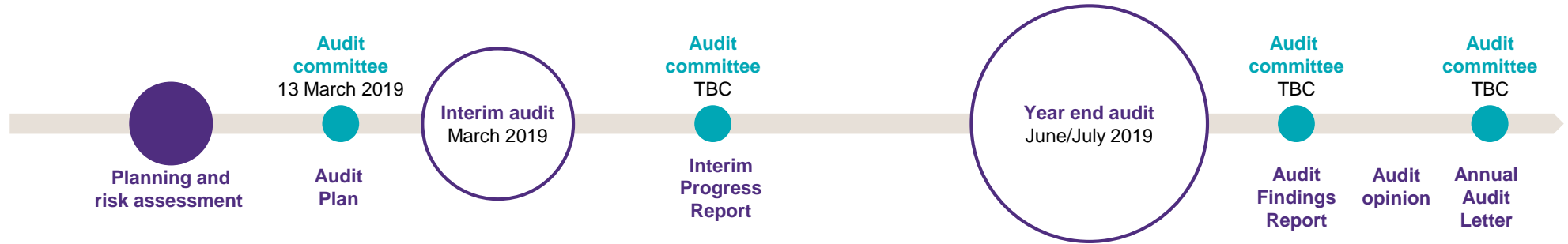


Brexit

The government is in continuing negotiations with the EU over Brexit, and there is uncertainty over the future impact for public services and the wider economy.

We will consider the action taken by the Council, including any wider preparations across local authorities in Kent, to mitigate any risks around Brexit.

Audit logistics, team & audit fees



Iain Murray, Engagement Lead



Trevor Greenlee, Audit Manager

Audit fees

The planned audit fees are £46,769 (PY: £60,739) for the financial statements audit completed under the Code. In setting your fee we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the 31 July audit timeframe

For 2017/18 the statutory date for publication of audited local government accounts was brought forward to 31 July across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities the time available to prepare the accounts was curtailed, while as auditors we had a shorter period to complete our work and faced a more significant peak in our workload than previously.

In 2017/18 you successfully published your draft accounts ahead of the new accelerated deadline of 31 May 2018. We gave an unqualified opinion on the Council's financial statements on 31 July 2018, meeting the national deadline.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with a timetable to be agreed with you.

Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2017/18 was £23,626 in comparison to the total fee for the audit of £46,769, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None.			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

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