

AGENDA

AUDIT COMMITTEE MEETING

Date: Monday, 25 July 2022

Time: 7.00 pm

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

Membership:

Councillors Derek Carnell (Chair), Simon Clark, Ann Hampshire, Angela Harrison, Mike Henderson (Vice-Chair), Denise Knights, Peter Macdonald, Peter Marchington and Pete Neal.

Quorum = 3

Pages

Information for the Public

*Members of the press and public may follow the proceedings of this meeting live via a weblink which will be published on the Swale Borough Council website.

Link to meeting: To be added.

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1. Emergency Evacuation Procedure

The Chair 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 Chair 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 Chair 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 Chair 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 Chair 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 9 March 2022 (Minute Nos. 666 - 670) and the [Minutes](#) of the Meeting held on 18 May 2022 (Minutes Nos. 35 – 36) as correct records.

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 Chair 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 Interests (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 meeting 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

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Issued on Wednesday, 13 July 2022

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**

Audit Committee	
Meeting Date	25 July 2022
Report Title	Grant Thornton Audit Plan 2021/22
SMT Lead	Lisa Fillery, Director of Resources
Head of Service	Phil Wilson, Head of Finance and Procurement
Lead Officer	Phil Wilson, Head of Finance and Procurement
Classification	Open
Recommendations	Members are asked to: 1. note the Annual Audit Plan presented by Grant Thornton (Appendix I).

1. Purpose of Report and Executive Summary

- 1.1 This report presents Grant Thornton's Annual Audit Plan covering their audit of the Council's 2021/22 accounts and the process for assessing the arrangements to secure value for money in the use of resources. The Audit Plan is attached as Appendix I.
- 1.2 The Audit Plan outlines Grant Thornton's proposed audit approach, the timing of audit work, and the significant audit risks identified to date.

2. Background

- 2.1 The Council is currently preparing the Annual Accounts for 2021/22. The Audit Committee is the body charged with governance for approving the Annual Accounts. The Audit Committee meeting on the 23 November will be presented with the Council's 2021/22 Annual Accounts and a report from Grant Thornton, as the Council's appointed external auditors, on the Accounts. Grant Thornton's report will give an opinion on the Accounts and the Council's Value for Money arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- 2.2 The purpose of this Audit Report is to report to the Audit Committee how Grant Thornton plan to audit the 2021/22 accounts.
- 2.3 The audit fees for 2020/21 and 2021/22 are detailed on page 17 of Appendix I.

3. Proposals

- 3.1 The Auditor's Audit Plan for the year ending 31 March 2022 is attached as Appendix I.
- 3.2 The Audit Committee is asked to note the Audit Plan for 2021/22.

4. Alternative Options

4.1 There are no alternative options.

5. Consultation Undertaken or Proposed

5.1 The Director of Resources was invited to comment on the Audit Plan.

6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The Audit Plan details the audit fees for 2020/21 and 2021/22.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the Accounts and Audit regulations.
Crime and Disorder	No direct issues
Environment and Climate/ Ecological Emergency	No direct issues
Health and Wellbeing	No direct issues
Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

7. Appendices

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

7.1.1 Appendix I: Auditor's Audit Plan for the year ending 31 March 2022

8. Background Papers

8.1 Detailed working papers are held in the Finance and Procurement Department.

Swale Borough Council audit plan

Year ending 31 March 2022

Swale Borough Council
April 2022
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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 Council 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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Key matters

Factors

Council Developments

The outbreak of the COVID-19 coronavirus pandemic continued to have a significant impact on the Council's normal operations during the year. This resulted in budget pressures on different services that the Council renders most such as increased expenditure on homelessness and on other funding streams such as income from car parks. The pandemic also had a knock-on effect on progressing capital projects. The quarter 3 capital budget monitoring presented at the February 2022 Cabinet meeting, reported the projected expenditure for the full year was £13.502m, £5.022m less than the £18.524m budget.

As for many councils the financial outlook is challenging and uncertain in the medium term. In the Summer of 2021, the funding gap was estimated at £3.7m over the period to 2022/23. By March 2022, this had reduced to £2.3m.

The Council's finance team is under a capacity pressure as it copes with a high level of long term sickness. Officers have worked to mitigate the impact, but there remains a risk that the availability of knowledgeable staff to respond to audit queries may slow the completion of the financial statements audit.

The Council declared a climate and ecological Emergency in June 2019, and has committed to make Council operations carbon neutral by 2025 and across the borough by 2030. The apparent impact of climate change in more extreme (and costly) weather events and increasing concern generally, is driving an increased demand for Authorities and businesses to flesh these plans out with what investment and changes to operations may be required to make such targets a reality in the medium to long term. This is also increasingly becoming an area of concern for Audit/Risk Committees in terms of how they oversee this risk, and auditors nationally are considering the impact on financial reporting and Value for Money of these plans.

CIPFA Code consultation

In March 2022, CIPFA/LASAAC agreed to pursue the option of deferring implementation in the Code of IFRS 16 Leases, subject to consideration and review of this approach by the Financial Reporting Advisory Board (FRAB). This deferral would be for a fixed period of two years and apply to all UK jurisdictions.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee is set out further on page 19.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will obtain updates on actions/recommendations agreed in respect of matters identified through our previous audit work, including Value for Money work during our on site audit planning and interim visit. We will report progress to this Committee in subsequent reporting.
- We have identified a significant risk in regards to management override of control (page 8) to manipulate their financial statements due to increasing financial pressures.
- We will consider the Council's planned response to the climate emergency and potential impacts on financial reporting in the current year.
- We will review and audit the Council's disclosures, including the financials disclosed, for accuracy, completeness and for how appropriate the disclosure is in line with the CIPFA Code.
- We will continue to provide you with sector updates via our Audit Committee updates.

Introduction and 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 out in the agreed 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 the Council. We draw your attention to both of these documents.

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:

- Council's 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.

Significant risks

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

- The risk that the valuation of Land and buildings and investment properties in the accounts is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

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 £1.56m (PY £1.56m) for the Council, which equates to 1.95% of your prior year Cost of Service 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 £78k (PY £78k). We will update this on receipt of the draft statement of accounts for audit. We design our procedures to detect errors in specific accounts at a lower level of precision, therefore we have determined lower materiality for cash and cash equivalents at £500,000 and Officers' Remuneration and Termination Benefits Disclosure at £50,000 respectively.

Value for Money arrangements

At the time of writing, our risk assessment regarding your arrangements to secure value for money is ongoing. We have not identified any risks of significant weaknesses in your arrangements. We will report any changes to our risk assessment to the committee.

Audit Logistics

Our interim audit took place in March 2022 and our final audit will take place between August - September 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £71, 269 (PY: £ 69,769) for the Council, subject to the Council delivering a good set of financial statements and working papers. Included in this fee is £1,500 for IFRS 16 disclosure work. This is subject to approval by PSAA Ltd.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

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	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions</p>		<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>The 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 Council revenue streams, 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 that of Swale Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Swale Borough Council.</p>
<p>Management override of controls</p>		<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. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</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, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates 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 and investment properties	<p>You revalue your operational land and buildings on a rolling five yearly basis and your investment properties every year. The valuation of these assets represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. We therefore identified valuation of land and buildings as a significant risk, particularly focused on the valuers' key assumptions and inputs to the valuations.</p> <p>For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluate the competence, capabilities and objectivity of the valuation expert; • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • Assess how management have challenged the valuations produced by the professional valuer to assure themselves that these represent the materially correct current value; • Test revaluations made during the year to see if they are input correctly into the Authority's asset register; • Evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; and • For all assets not formally revalued, evaluate the judgement made by management or others in determination of current value of these assets.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability.</p> <p>We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation (we will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • Obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risk identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Error in expenditure recognition	Council	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period, but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p> <p>Having considered the risk factors related to this risk and the nature of the expenditure streams at the Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted for the Council's expenditure, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate expenditure recognition • opportunities to manipulate expenditure recognition are limited • the culture and ethical frameworks of local authorities, including Swale Borough Council, mean that all forms of fraud are seen as unacceptable. <p>However, we have identified that due to the level of estimation involved in the manual accruals of expenditure and the potential volume of accruals at year end there is an increased risk of error in expenditure recognition.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We will also compare listings of accruals to the previous year to ensure completeness of accrued items. • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and building and investment properties
- Depreciation
- Credit loss and impairment allowances
- Year end accruals
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

How management understands the degree of estimation uncertainty related to each accounting estimate; and

How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have raised enquiries with the management as a separate exercise. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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 our knowledge of the Council.

Page 18 We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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.

Materiality

The concept of materiality

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 have determined 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. Materiality at the planning stage of our audit is £1.56m (PY £1.56m) for the Council, which equates to 1.95% of the council's prior year expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision, therefore we have determined lower materiality for cash and cash equivalents at £500,000 and Officers' Remuneration and Termination Benefits Disclosure at £50,000 respectively.

We reconsider 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.

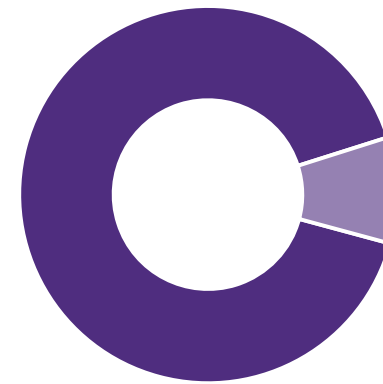
Matters we will report to the Audit Committee

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 £78k.

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.

Prior year cost of service expenditure

£80.1M



- Prior year cost of service expenditure
- Materiality

Materiality

£1.56m

Council financial statements materiality (PY: £1.56m)



£78k

Misstatements reported to the Audit Committee (PY: £78k)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Agresso	General Ledger	<ul style="list-style-type: none"> Streamlined ITGC design assessment
iTreat	Payroll	<ul style="list-style-type: none"> Streamlined ITGC design assessment
Academy	Housing Benefit	<ul style="list-style-type: none"> Streamlined ITGC design assessment

We have not identified significant changes during the period affecting the IT controls of the Council and therefore no additional audit procedures will be completed.

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Page 21

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Audit logistics and team

Planning and
risk assessment

Audit
committee
July 2022

Audit Plan

Year end audit
July to September

Audit
committee
September 2022

Audit Findings
Report
Audit Opinion

Audit
committee
November 2022

Auditor's
Annual
Report

Page
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Darren Wells, Key Audit Partner

Darren is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Audit and Governance Committee and senior officers. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Darren will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Darren will sign your audit opinion.



Richmond N Nyarko, Audit Manager

Richmond is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee, Director of Finance, Policy and Development and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Richmond will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Ghufraan Ahmed, Audit Assistant Manager

Ghufraan will lead the onsite team and will be the day-to-day contact for the audit. He will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management.

Audited body responsibilities

Where audited bodies 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 audits. 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 to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable 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 for testing
- 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.

Audit fees

In 2018, PSAA awarded a contract of audit for Swale Borough Council to begin with effect from 2018/19. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

Our proposed work and fee for 2021/22, as set out below. Included in this fee is £1,500 for IFRS 16 disclosure work.

The fee is based on an assumption that we will be able to work on site and have on site access to finance staff, where appropriate, to ensure the most efficient approach. If the Council would prefer the audit to be conducted remotely an additional fee of up to £5,000 may be chargeable.

	Actual fee 2020/21	Proposed fee 2021/22
Council Audit	£69,769	71,269

The fee is subject to approval by PSAA Ltd.

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and 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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit, we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The other services provided by Grant Thornton are set out in the table opposite.

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.

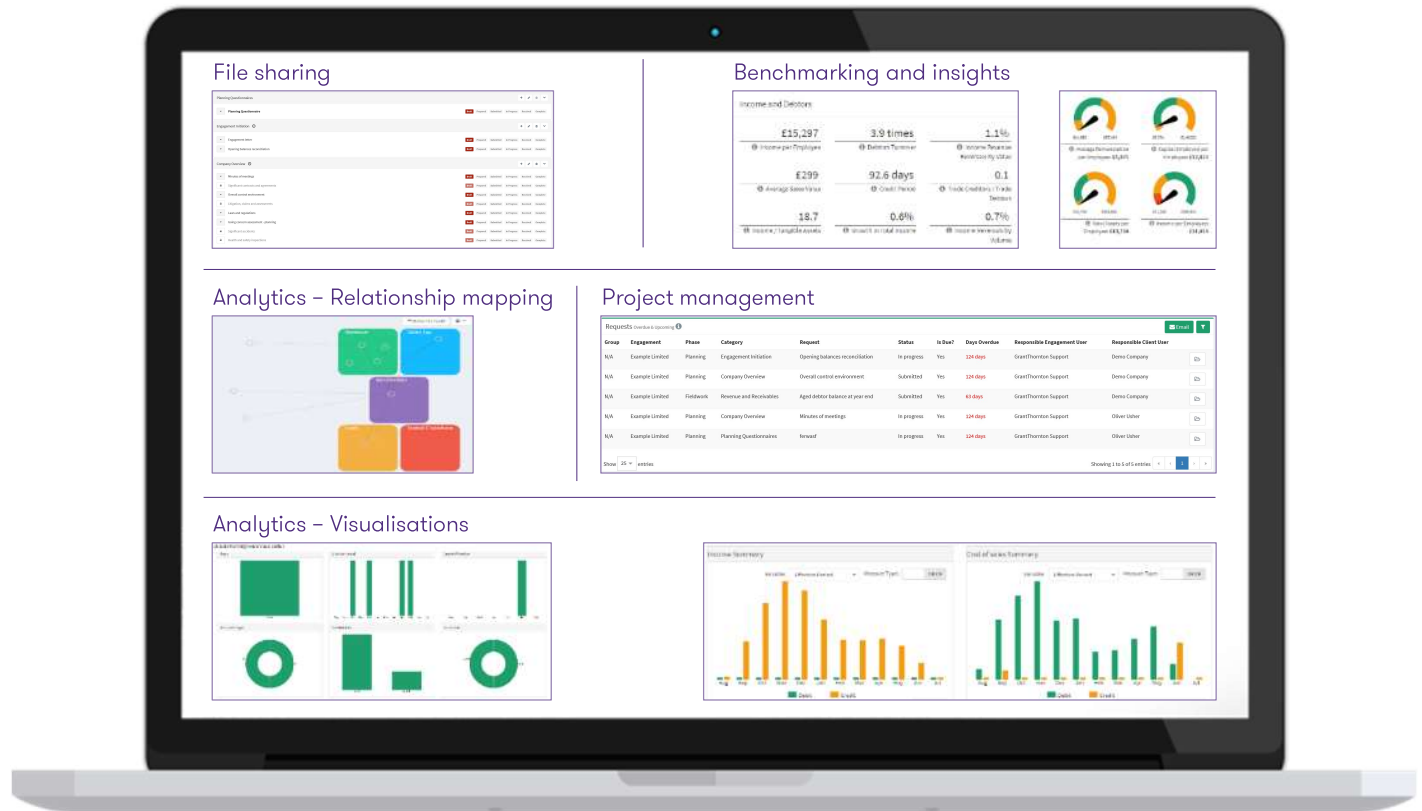
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	18,400	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 expected fee for this work is £18,400 which is immaterial in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Furthermore, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds



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Audit Committee Meeting	
Meeting Date	25 th July 2022
Report Title	Risk Management Framework
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Alison Blake – Interim Head of Audit
Lead Officer	Alison Blake – Interim Head of Audit
Classification	Open
Recommendations	1. That the Audit Committee approves the revised Risk Management Framework.

1 Purpose of Report and Executive Summary

- 1.1 The Risk Management Framework has been brought to Audit Committee for approval in line with their governance role in overseeing the effectiveness of the Council’s risk management arrangements.
- 1.2 The risk management framework has been updated to reflect changes in how the Council operates, including how risk management processes work in practice and the outcomes of consultation with SMT and Members of the Audit Committee.

2 Background

- 2.1 Since the Frameworks introduction in 2015 it has been routinely reviewed and updated, with the last update taking place in 2019.
- 2.2 During October / November 2021 SMT were consulted on changes that could be made to the Council’s risk management processes to enhance and update them and to reflect the new management team structure. This feedback and the operation of the process over the past few years was used to develop the revised Risk Management Framework, which SMT agreed in January 2022 – subject to confirmation of how risk information would be reported and overseen within the new Committee Structure.
- 2.3 Feedback on the key changes was sought from Audit Committee in March 2022, including changes to the impact and likelihood scales and changes to the Council’s risk appetite statement.
- 2.4 Now the Committee Structure has been agreed and the role of Policy & Resources Committee established, the revised Risk Management Framework can be brought for agreement.

2.5 The key changes made to the Risk Management Framework were included in the March 2022 report and are summarised as:

- Adding a foreword from the Chief Executive promoting the value of the Council's risk management processes.
- Likelihood scales updated to refine the probability thresholds, reducing the maximum probability down from 90% and re-distributing the other levels. Descriptions were also updated to incorporate a timeframe over which the risk may occur.
- Impact scales have been updated, including amending the financial scales, changing the definitions of the service and strategic objective scales, adding in a wellbeing scale, and incorporating the health & safety scale within legal/compliance.
- The risk appetite statement was updated to remove the blue priority (incorporating it into the green scale) and to increase the threshold for the red priority to better reflect the Council's approach to managing those risks.
- Adjusting the reporting of risk information to report key risk information to Policy & Resources Committee rather than Informal Cabinet.
- Framework updated to remove reference to capturing risks within a spreadsheet and replace with reference and links to the Council's risk management software JCAD.
- Incorporating other suggested amendments from the Council's insurer's (Zurich) review of the Framework.

2.6 Once the new Framework is agreed existing risks can be fully reviewed, updated and re-scored. This provides an opportunity to fully refresh corporate and operational risk registers, including removing risks and identifying new risks as needed.

3 Proposals

3.1 That the Risk Management Framework 2022 be adopted and used to assess and monitor existing and new corporate and operational risks.

4 Alternative Options

4.1 Effective risk management processes need to be underpinned by clear guidelines on how risks should be identified, managed, monitored and reported on. Effective risk management is a key principle of corporate governance and its importance is recognised in the Accounts and Audit Regulations 2015.

4.2 An alternative option would be to not have a risk management framework in place, but this would counter the effectiveness of the process and go against the terms of reference for this committee.

5 Consultation Undertaken or Proposed

- 5.1 The risk management framework was designed and updated through consultations with SMT.
- 5.2 Additionally, the 2021-22 Annual Risk Management report brought to Audit Committee in March 2022 included the key changes proposed to the framework, and Members discussed these during the meeting.

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 is being met from existing resources within the Mid Kent Audit partnership. No implications identified at this stage.
Legal, Statutory and Procurement	None identified at this stage
Crime and Disorder	None identified at this stage
Environment and Climate/Ecological Emergency	None identified at this stage
Health and Wellbeing	None identified at this stage
Safeguarding of Children, Young People and Vulnerable Adults	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
Privacy and Data Protection	None identified at this stage

7 Appendices

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

- Appendix I: Risk Management Framework – 2022 Draft

8 Background Papers

- Annual Risk Management Update 2021-22: [Agenda for Audit Committee on Wednesday, 9 March 2022, 7.00 pm \(swale.gov.uk\)](#)



Risk Management Framework

July 2022

Foreword

Swale Borough Council (the Council) aspires to be a place to be proud of. Recent years have seen the Council, and all local authorities, go through major changes in response to budget cuts and increased demand on services. Residents, businesses and visitors have greater expectations, and the Council needs to work with a variety of partners to meet those expectations.

As individuals we make choices every day about our lives, our work. All our staff are committed to make Swale a better place and make decisions and choices to achieve this. With choices come risks. This framework aims to help you to identify, manage and control those risks to ensure we get the results we want for our communities, and to avoid those we don't.

Risk management is not risk avoidance. The Council understands and accepts that taking risks is often necessary when delivering services and achieving our aspirations. Our *Risk Management Framework* sets out in clear guidance the tools and approach to achieve clarity and consistency in relation to our risks. It allows us to identify risks we are willing to accept, be clear on those we want to reject and effectively manage those we choose to take.



Larissa Reed
Chief Executive,
Swale Borough
Council

Introduction

What is risk management?

A risk is **a potential future event that, if it materialises, effects the achievement of objectives**. Events can be either something unexpected that happens, or something expected that doesn't happen. Risk management is the process that we adopt to identify, measure and control risks.

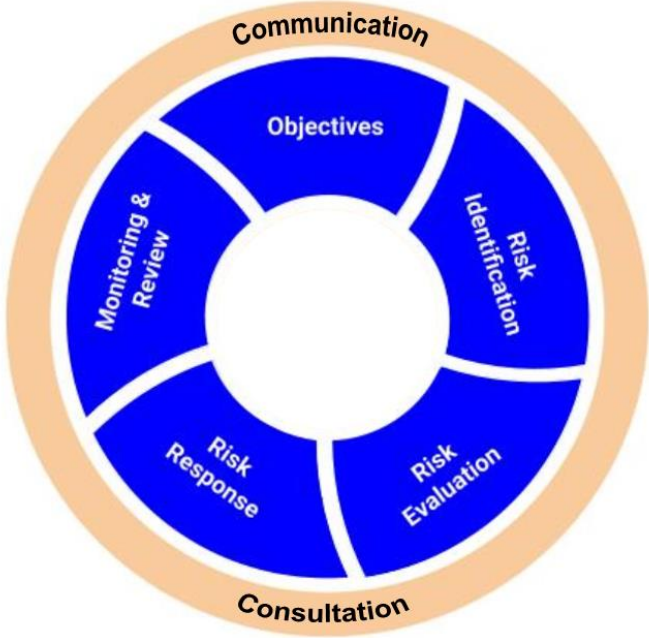
What are the advantages of risk management?

By having arrangements in place to identify and manage our risks, we increase our chances of achieving corporate and operational objectives and reduce the chance of failure. Good risk management also increases our ability to cope with developing and uncertain events. The only thing constant is change; risk management helps us to anticipate, plan for and react to those changes.

Risk management is a key component for effective corporate governance, and as a Local Authority we must be, and must be seen to be, careful custodians of public funds. Risk information is therefore a key component in supporting better, more informed decision making on how we use our resources.

What is this guidance all about?

This Framework provides a detailed guide setting out the Council's risk management process. As you work through the guide it will take you through each stage of the process which can be illustrated as follows:



Templates and examples are [available](#) to assist you as you capture and assess your risks. The guide assumes no prior knowledge of risk management and can either be used in full, or in part based on experience.

Who is responsible for risk management?

We all have a duty to be aware of, and manage, the risks that may prevent or impede us from delivering services. The formal consideration of risk is undertaken as part of the service and corporate planning processes, and so we expect the Framework to be used predominantly by managers, heads of service and the Senior Management Team.

Appendix II outlines the respective roles and responsibilities of those involved in the risk management process.

If you have any questions about this guidance, or would like additional support, then please contact:

Alison Blake – Interim Deputy Head of Audit	
Email: alison.blake@midkent.gov.uk	Call: 01622 602080
Sandra McGinnis – Risk and Governance Officer	
Email: Sandra.mcginnis@midkent.gov.uk	Call: 01622 602279

Step 0 – Clarify your Objectives

A risk is an event that could affect the achievement of your objectives. So, before you can assess what stands in your way you need to know where you're going. What are your **objectives**?

- **What** are you seeking to achieve?
- by **When**? And
- **Who** is responsible for achieving them?

This includes understanding what the Council wants to achieve and the resources it has available – in both capacity and capability – to deliver. The Council has set out its corporate objectives in the **Corporate Plan**, and services objectives are determined as part of the **Service Planning** process.

Our aim is that risk management fits in with and supports your objectives, which in turn support the objectives of the Council. This link between Council objectives, through departmental or service objectives is called the golden thread. When everyone at the Council is pulling in the same direction we will have a much greater chance of being able to achieve our shared goals.

Clarifying your objectives will allow a greater understanding of what will stop you achieving those objectives and what opportunities you need to grasp to meet your goals. Setting your objectives clearly will also reveal links to internal and external stakeholders on whom you rely as well as other external factors that will impact your objectives.

Step 1 – Identify your Risks

The purpose of any risk identification exercise is to find the **uncertain event** that could impact on your objective. Remember, events can be either something unexpected that happens, or something expected that doesn't happen. It can also be a single event or a series of events. As time passes, the things we need to do will inevitably change, so this step has two principal elements:

- **Initial risk identification**, for example when embarking on a new project, following a major service change or creating a new service plan, and
- **Continuous risk identification**: that is to say changes to existing risk descriptions or changes in circumstances leading to new risks.

Common techniques used across the Council to identify risks are **brainstorming**, **workshops** and **facilitated discussions**. Asking the following questions can help identify risks:

- If in a year from now we haven't achieved this objective, why – what could have stopped us?
- What could realistically go wrong?
- What do we need in order to achieve this objective? Do we depend on others to succeed?
- What opportunities might arise?

One of the most common pitfalls in identifying risks is to simply say the opposite of the objective – look instead for potential events or circumstances which could occur **in the future**. The below table illustrates what may or may not be considered to be a risk:

Objective	Potential Risk Statement	Is this a risk?
To provide the best services resources allow	Failing to provide the best services resources allow	✘ This is simply stating the opposite of the objective.
	Public are dissatisfied with Council services	✘ This is a statement of the potential impact of failing to meet the objective; not in itself a risk.
	A lack of suitably trained and available staff limiting ability to deliver efficient services	✔ This is a risk we can control by, for instance, making plans to keep training up to date and reviewing our staffing needs.
	The Government has reduced our funding	✘ This has already happened and so is an issue to be managed. Risks look ahead to potential events and so involve at least some uncertainty.
	The Government sharply reduces future funding	✔ This is a risk over which we have little or no control, but we can assess likelihood and, if required, make contingency plans .

Risk Description

When articulating your risk it is useful to capture the cause and consequence of the risk, i.e. as a result of [**cause**], [**risk**] could occur meaning [**consequence**]. So, for the above example one risk could read: *Government policy changes could result in a significant reduction in future funding, leading to a reduction in the quality of our service.*

Risk Ownership

Once identified, it is essential that someone **owns the risk**, taking principal responsibility for monitoring its course and tracking actions in response. Risk ownership is not the same as actually undertaking or being responsible for carrying out actions in response. Rather the role is aimed at ensuring necessary actions take place, otherwise there is a chance management actions may not be completed.

The best risk owner will usually be someone closely involved in delivering the area of the business where the risk arises.

Risk Register

The risks generated from this step should be captured in the **risk register**. The Council uses JCAD software to capture, update and report on risks. The software will guide you through the risk identification process.

JCAD can be accessed by clicking <https://midkentaudit.jcadcore.com/> and using your Council username and password to access it (as you would to log onto your computer). All risk owners have been granted access to JCAD, if you feel you need access please contact the Audit Team using the contact details on page 4.

A guide for using JCAD can be found [here](#).

Step 2 – Evaluate your Risks

Having identified the risk, the next step is to understand how big it is. A key element of evaluating risks is establishing what controls are in place to manage the risk. This helps us to determine the 'business as usual' position, referred to as the **current risk**.

Controls

A control is defined as *any action taken by management or other parties to manage risk and increase the likelihood that objectives and goals will be achieved*. There are different types of internal controls as described in the following table:

Control Category	Description	Examples
Preventative	Designed to limit the possibility of an undesirable outcome. These primarily manage the <i>likelihood</i> of the risk.	Financial Standing Orders Prior authorisation Access controls (system / physical) Data retention and destruction
Directive	Designed to set desired outcomes and expectations. Can manage the risk <i>impact</i> or <i>likelihood</i> .	Policies and procedures Training and awareness Job descriptions Manuals
Detective	Designed to identify problems when undesirable events have occurred. These primarily manage the risk <i>impact</i> .	Analytical review Exception reporting Sample checking Physical checks
Corrective	Designed to correct an undesirable outcome and prevent re-occurrence. These primarily manage the risk <i>impact</i> .	Restoration of backup files Insurance / compensation

Consideration should be given to whether the control is designed and operating effectively or whether improvements need to be made. Where the control is not effective it will be less useful in reducing the risk and this should be taken into account when scoring the risk.

Score Risks

Once the controls have been identified the risk can be evaluated – that is to say given a risk score. Risk evaluation incorporates two principal elements:

- **Impact** – how severely the organisation would be affected if the risk materialises. In other words if the forecast event actually happens then what will that do to the Council?
- **Likelihood** – This is a consideration of how likely it is that the risk will occur. In other words the probability that it will materialise and become an event that needs managing.

Risk **impact** is considered across several different criteria, including:

- Service
- Reputation
- Wellbeing
- Legal/Compliance
- Financial
- Strategic Objectives

For your risk consider whether the impact criteria applies – i.e. whether that type of impact would be felt by the Council. It is possible that some impact types may not be relevant. If it applies consider what is the *most credible worst impact* should the risk materialise. Once all possible impacts have been considered **the highest most credible impact score is taken as your overall impact score.**

Risk **likelihood** is determined by considering whether the event has occurred previously or elsewhere, how probable its occurrence is and how quickly the risk may materialise.

The **score for the risk is obtained by multiplying the overall impact score by the likelihood score.** The criteria used to assess impact and likelihood can be found in **Appendix I** and should be used to guide your evaluation of each risk identified.

Document your existing controls and impact / likelihood scores in your **risk register** in JCAD.

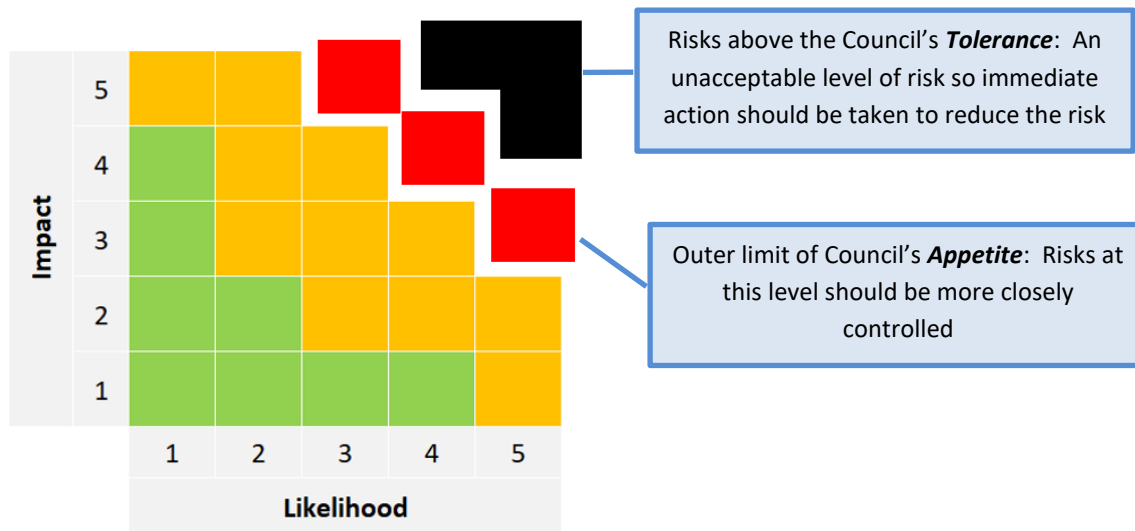
Step 3 – Respond to your Risks

Now you've identified your risks and established how big they are, you will need to decide what action (if any) you are going to take. How you respond is determined by the risk score and consideration of the Councils' risk appetite.

Risk Appetite Statement

Our **risk appetite** guides how much risk we are willing to seek or accept to achieve our objectives. We recognise effective risk management considers not just threats but also opportunities. So, our approach to risk is to seek the right opportunities and, where possible, minimise threats. Beyond our risk appetite is our **risk tolerance**. This sets the level of risk that is unacceptable, whatever opportunities might follow. In such instances we will aim to reduce the risk to a level that is within our appetite.

We illustrate our risk appetite and tolerance in the matrix below. The **RED** area represents the outer limit of our risk appetite, and the **BLACK** area indicates the tolerance. As a Council we are not willing to take risks that have significant negative consequences on the achievement of our objectives.



Risk Response

There are four principal ways in which we can respond to risks:

TREAT	ACCEPT	TRANSFER	TERMINATE
Put in place (or strengthen) controls - this is the most common way of managing risks.	Accepting the likelihood and consequences of the risk.	Shifting the risk, in whole or in part, to a third party.	Deciding to cease the activity which causes the risk.

The following table outlines what risk owners should do to respond to their identified risks:

Risk Rating	Guidance to Risk Owners
<p>20-25</p>	<p>Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks.</p> <p>The Council is not willing to take risks at this level and action should be taken immediately to treat, transfer or terminate the risk.</p> <p>Identify the actions / controls necessary to manage the risk down to an acceptable level. Report the risk to the Audit Team and your Director.</p> <p>If necessary, steps will be taken to collectively review the risk and identify any other possible mitigation (such as additional controls).</p>
<p>15-16</p>	<p>These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.</p> <p>Alternatively, consideration can be given to transferring or terminating the risk.</p> <p>Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level.</p> <p>If unsure about ways to manage the risk, consult with the Internal Audit Team.</p>
<p>5-12</p>	<p>These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases, then risk owners should seek to manage the increase.</p> <p>Keep these risks on the radar and update as and when changes are made, or if controls are implemented.</p> <p>Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.</p>
<p>1-4</p>	<p>These are low level risks that could impede or hinder achievement of objectives. Due to the relatively low level, it is unlikely that additional controls will be identified to respond to the risk.</p> <p>Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.</p>

Depending on how you have decided to respond to your risk the following action will need to be taken:

- Where you have decided to **TREAT** your risk: document your planned controls / actions in your risk register and re-score impact and/or likelihood. This will give you your **mitigated** risk rating, which assumes all planned controls / actions have been fully implemented and are operating effectively.
- If you have decided to **ACCEPT** the risk, no further action is necessary. The risk register will capture the risk and its' existing controls, and the **current** and **mitigated** scores will be the same.
- For **TERMINATED** risks, the risk should remain in the risk register until the activity causing the risk has been stopped. You may want to capture what action is being taken to terminate the activity. Once terminated the risk should be removed from the risk register.
- Where you decide to **TRANSFER** (in whole or in part) the risk you will need to consider what risk remains to the Council. Capture the transfer as a planned action in the risk register and re-score impact and/or likelihood. This will give you your **mitigated** risk rating. Once the risk has been transferred you may want to consider whether any risks relating to the transfer need to be recorded in the risk register.

PLANNED CONTROLS / ACTIONS

If you have decided to **treat** the risk and have identified actions or new controls that can be introduced care should be taken to ensure they are SMART – specific, measurable, achievable, realistic and have a timescale. Carefully consider what your planned control / action will deliver and how it will help to manage the risk.

Document your decided course of action and the mitigated impact and likelihood scores in your **risk register** in JCAD.

Step 4 – Monitor and Review your Risks

Monitoring risks supports our understanding of whether and how the risk profile of services and the Council is changing. It also helps us to determine the extent to which controls are working as expected to manage risks. It is therefore a key step in the process to routinely consider and review our risks.

The process of monitoring and reviewing risks can take place at any time. You could choose to discuss your risk register(s) during routine management team meetings or 1:1s. Or you could review risks as circumstances change – for example changes in service delivery or in the Council's external environment. To ensure risks are routinely reviewed the following cycle should be followed as a minimum:

Risk Score	Review Cycle
Black	Senior Management Team (SMT) actively monitor all black risks, e.g. through monthly reports on the risk area
Red	Review every 3 months
Amber	Review every 6 months
Green	Keep in mind and review at least annually

Risk Review

When reviewing your risks consider whether the risk is still relevant and whether the risk description is accurate. If the risk no longer applies then mark the risk as **closed** and provide some detail explaining why. If the risk still exists but needs to be updated adjust the cause, risk and/or consequences.

Next consider the current controls and ask yourself:

- Are the controls **still in place**?
- Are the controls **operating effectively**?
- Has anything **new** been introduced?

If you have identified planned controls / actions as part of your risk response this step is the time to consider how implementation is progressing. Consider whether the action is complete, or control now introduced and operating effectively. If so, the action should be marked as complete and (where necessary) existing controls updated to reflect the changes made.

Once you have considered these areas, review the **current** and **mitigated** risk scores to consider whether any of the changes identified above have altered the scores. See step 2 for a reminder on how to score the risks, or contact the Audit Team for further support – see page 4.

Communication and Consultation

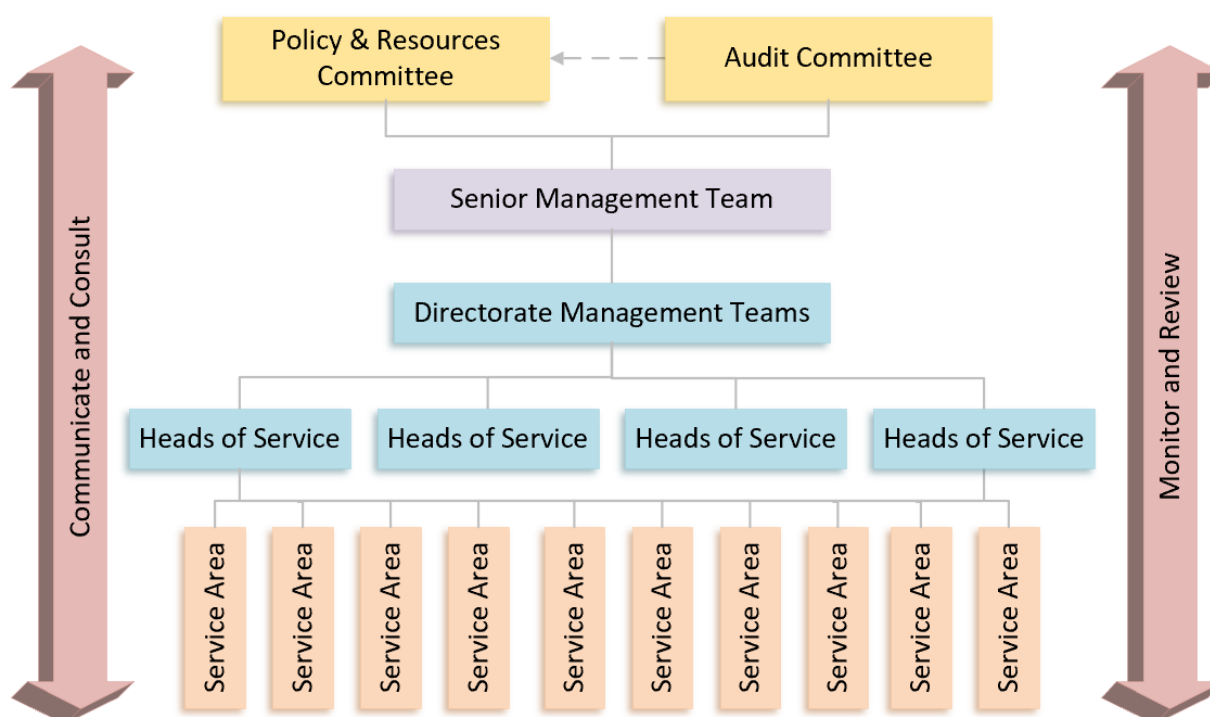
A register of all the Council's risks is contained within JCAD and is used to report on key risks over the course of the year. Discussing key risk information and consulting on how to respond to the Councils' most critical risks ensures transparency and facilitates effective decision making.

A wide range of risk information is reported as needed, including thematic information and emerging risks. Reporting of risk information is facilitated by the Audit Team and the routine reporting cycles are:

- Quarterly reporting to SMT on all corporate risks and high-level operational risks (i.e. those above the Council's risk appetite).
- 6-monthly reporting to Policy & Resources on all corporate risks and the overall risk profile.
- Annual report to Audit Committee on the effectiveness of the risk management process.

Communication should flow throughout the Council so as well as reporting risk information up to SMT and Members, feedback from these discussions is also provided to risk owners. This could be through the Audit Team or Director / Head of Service present during the discussion. The intention is not to 'override' the risk owner's perspective but to ensure there is a common understanding of the risk, its magnitude and how to respond to it.

The following diagram depicts the reporting of risk information:



Appendix I: Impact & Likelihood Scales

RISK IMPACT

Level	Service	Reputation	Wellbeing	Legal/Compliance	Financial	Strategic Objectives
Catastrophic (5)	Ongoing failure to provide an adequate service in a key area	Perceived as a failing authority requiring intervention	Significant staff dissatisfaction, long term absence, or increased staff turnover including key personnel	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment. Possible responsibility for death.	Uncontrollable financial loss or overspend over £1.5m	Failure to deliver multiple key priorities
Major (4)	Key service areas disrupted 5+ days Other service areas ongoing failure	Significant adverse national publicity	Adverse staff dissatisfaction, or increased absence and turnover of staff	Litigation expected and uncertain if defensible. Breaches of law punishable by significant fines. Fails to prevent death, causes extensive permanent injuries or <u>long term</u> sick	Financial loss or overspend greater than £1m	Failure to deliver key priority
Moderate (3)	Key service disruption 3-5 days Other service disruption 7+ days	Adverse national publicity of significant adverse local publicity	Declining staff satisfaction, or some loss of staff due to absence or turnover	Litigation expected but defensible. Breaches of law punishable by fines. Fails to prevent extensive permanent injuries or <u>long term</u> sick.	Financial loss or overspend greater than £700k	Unsatisfactory delivery of priorities
Minor (2)	Key service disruption 2 days Other service disruption 2-7 days	Minor adverse local publicity	Short-term dissatisfaction, minor loss of staff due to absence or turnover	Complaint or litigation possible. Breaches of regulations or standards. Long term injuries or sickness.	Financial loss or overspend greater than £100k	Poor delivery of priorities
Minimal (1)	Any service disruption 1+ day	Unlikely to cause adverse publicity	Loss of staff morale but unlikely to result in absence or turnover of staff	Unlikely to cause complaint. Breaches of local procedures.	Financial loss or overspend under £100k	Minimal reduction in delivery of priorities

RISK LIKELIHOOD

Level	Probability	Description
Highly Probable (5)	80% +	Without action is likely to occur; frequent similar occurrences in local government / Council history or anticipated within the next 6 months.
Probable (4)	60% - 80%	Similar occurrences known often in local government / Council history or anticipated within the next 12 months.
Possible (3)	40% - 60%	Similar occurrences experienced in local government / Council history or anticipated within the next 18 months.
Unlikely (2)	20% - 40%	Not unheard-of occurrence in local government / Council history. Anticipated within the next 2 years.
Rare (1)	0% - 20%	Seldom occurs; no recent similar instances in local government / Council history.

Appendix II: Roles & Responsibilities

Role	Responsibilities
Managers / Heads of Service	<ul style="list-style-type: none"> Identify, assess and treat risks in accordance with the Framework – recording all risks on your risk register Identify and implement controls and actions to manage risks, and monitor the effectiveness of those actions. Maintain a continued awareness of new and emerging risks to your service where necessary add them to your risk register Identify and report risk implications relating to key decisions being put forward Maintain your risk register and communicate risks to your service
Senior Management Team (Including Executive Management Team)	<ul style="list-style-type: none"> Review all reported high-level risks (as per the risk appetite statement) Actively support and guide the management of risks outside the Councils' tolerance and take taken to mitigate impact / likelihood Maintained a continued awareness of risks (current & emerging) that may need to be added to the register and assessed using the Framework Provide overview and challenge over the corporate level risks facing the Council, how these are affected by change and how they are being managed Review and guide on the risk implications of key decisions as part of the Councils' governance process Communicate and support the effective management of risk with Members and stakeholders Ensure and monitor compliance with Risk Management practices
Members	<ul style="list-style-type: none"> Assist in the identification and assessment of the Corporate Level risks linked to the Councils' strategic plan Provide oversight and challenge over the management of risks above the Councils' appetite (through Policy & Resources Committee) Gain assurance over the effectiveness of the Council's risk management processes (through Audit Committee) Maintain a continued awareness of emerging risks, and risk implications associated with key decisions Ensure the decision-making Committees act within the agreed risk appetite and tolerance of the Council
Risk Management support (Audit Team)	<ul style="list-style-type: none"> Keep and maintain JCAD as the up-to-date record of all risks within the Framework Follow-up on the implementation of risk actions Facilitate and support officers with the identification and assessment of risks Compile and report key risk information throughout the Council Provide advice and guidance to the Council on risk issues and emerging risks Provide training and updates to officers and members on risk management practices and processes Liaise with Services to embed risk management into the culture of the Council

Appendix III: One Page Process Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review																																													
<p>Best done in groups, by those responsible for delivering objectives.</p> <p>RISK is a <i>potential future</i> event that, if it materialises, has an <i>effect</i> on the achievement of our objectives.</p> <p>Consider both threats and opportunities.</p> <p>When to consider:</p> <ul style="list-style-type: none"> • Setting business aims and objectives • Service planning • Target setting • Partnerships & projects • Options appraisal <p>Establish the risk owner.</p> <p>Document in the risk register.</p>	<p>Establish your key existing controls and whether they are managing the impact and/or likelihood of the risk.</p> <p>Combination of the impact and likelihood of an event (the CURRENT RISK).</p> <p>Impact score is the highest most credible score from the different categories.</p> <p>Scores can be depicted in the risk matrix:</p> <table border="1" data-bbox="703 919 1128 1299"> <tr> <td rowspan="5">Impact</td> <td>5</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Black</td> <td>Black</td> </tr> <tr> <td>4</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Black</td> </tr> <tr> <td>3</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> </tr> <tr> <td>2</td> <td>Green</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Yellow</td> </tr> <tr> <td>1</td> <td>Green</td> <td>Green</td> <td>Green</td> <td>Green</td> <td>Yellow</td> </tr> <tr> <td></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td colspan="5">Likelihood</td> </tr> </table>	Impact	5	Yellow	Yellow	Red	Black	Black	4	Green	Yellow	Yellow	Red	Black	3	Green	Yellow	Yellow	Yellow	Red	2	Green	Green	Yellow	Yellow	Yellow	1	Green	Green	Green	Green	Yellow			1	2	3	4	5			Likelihood					<p>Black – above our tolerance, immediate action is needed and reporting to directors.</p> <p>Red – outer limit of our appetite, action needed.</p> <p>Amber – medium risk and a need to review existing controls.</p> <p>Green – Low risk requiring limited or no action.</p> <p>Risk Response – 4Ts</p> <ul style="list-style-type: none"> • Treat (i.e. apply controls) • Accept (i.e. leave the risk as is) • Transfer (e.g. insurance / partnership) • Terminate (i.e. stop activity) <p>After your response: what is the risk score now? (this is the MITIGATED RISK)</p> <p>All risks should be captured within the JCAD risk management software.</p>	<p>Routinely review and update risks, controls and planned actions:</p> <p>Black – review monthly.</p> <p>Red – review quarterly.</p> <p>Amber – review 6-monthly.</p> <p>Green – keep in mind / annual review.</p> <p>Communication & Consultation</p> <p>The Audit Team facilitates the reporting of risk information throughout the Council.</p> <ul style="list-style-type: none"> • Quarterly reporting to SMT • 6-monthly reporting to Policy & Resources Committee • Annual report to Audit Committee
Impact	5		Yellow	Yellow	Red	Black	Black																																									
	4		Green	Yellow	Yellow	Red	Black																																									
	3		Green	Yellow	Yellow	Yellow	Red																																									
	2		Green	Green	Yellow	Yellow	Yellow																																									
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Audit Committee Meeting	
Meeting Date	25 July 2022
Report Title	Audit Committee Annual Report – 2021/22
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Alison Blake – Interim Head of Audit Partnership
Lead Officer	Alison Blake – Interim Head of Audit Partnership
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. That the Audit Committee Annual Report for 2021/22 (appendix I) is agreed. 2. That the Chairman of the Audit Committee presents the report to a meeting of Full Council to demonstrate how the Committee has discharged its duties.

1 Purpose of Report and Executive Summary

- 1.1 The report details how the Audit Committee effectively fulfilled its duties during 2021/22. This report provides assurance to the Council that the Committee has monitored and addressed issues of governance, risk management and internal control throughout the year.

2 Background

- 2.1 The Audit Committee is required to monitor internal and external audit activity, review and comment on the effectiveness of the Council’s governance framework and review and approve the Council’s annual statement of accounts.

3 Proposals

- 3.1 To agree the Audit Committee Annual Report as attached in Appendix I.
- 3.2 That the Chairman of the Audit Committee presents the report to a meeting of the Full Council setting out how the Committee has discharged its duties.

4 Alternative Options

- 4.1 The production and presentation of an annual report is required by this Committee’s terms of reference. Therefore, no other alternative could be recommended.

5 Consultation Undertaken or Proposed

- 5.1 The draft report was sent to the Chairman of the Audit Committee for consultation prior to submission for this meeting.

6 Implications

Issue	Implications
Corporate Plan	None identified at this stage.
Financial, Resource and Property	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.
Legal, Statutory and Procurement	None identified at this stage..
Crime and Disorder	None identified at this stage.
Environment and Climate/Ecological Emergency	None identified at this stage.
Health and Wellbeing	None identified at this stage.
Safeguarding of Children, Young People and Vulnerable Adults	None identified at this stage.
Risk Management and Health and Safety	None identified at this stage.
Equality and Diversity	None identified at this stage.
Privacy and Data Protection	None identified at this stage.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Audit Committee Annual Report 2021-22

8 Background Papers

- Audit Committee Reports, Agendas and Minutes

SWALE BOROUGH COUNCIL

Audit Committee Annual Report

July 2022



Statement from the Chairman

As the Chair of the Audit Committee, it is my pleasure to introduce the annual report, providing an overview of the Committee's activity during the Municipal Year 2021/22.

The Council has continued to face big challenges because of the Covid-19 pandemic. As a Committee, we have maintained our focus on the issues facing the Council from a risk, control, and governance perspective. This report looks back and gives us opportunity to reflect on the activity and achievements of the Committee during the year.

We have met four times in the last year, either in person or virtually. The Committee has discharged its responsibility to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment.

We have also provided robust scrutiny and challenge of the Authority's financial performance. Among the highlights for the year, I am pleased to note a further unqualified accounts opinion and value for money conclusion from our external auditors. Alongside this, our internal auditors provided us with a positive opinion on the Council's control and governance.

We also reviewed the updated Corporate Risk Register, and an internal audit plan for 2022/23.

I would like to take this opportunity to thank Members and Officers that have supported the Committee over the last year. Their professionalism, integrity, and openness have helped us to discuss, challenge and debate key issues and agree solutions and improvements where appropriate to do so.



Councillor Derek Carnell - Audit Committee Chair

Purpose of the Committee

The Audit Committee operates in accordance with the [Audit Committees, Practical Guidance for Local Authorities](#) (updated 2018). This guidance:

- is published by the Chartered Institute of Public Finance (CIPFA)
- recommends that audit committees should report annually on how they have discharged their responsibilities
- sets out the purpose of an Audit Committee.

Swale Borough Council Audit Committee Purpose:

To consider summaries of internal audit reports produced and review management action taken on associated recommendations. To consider and comment upon any items relevant to the internal audit function. To receive the annual management letter and report from the Council's External Auditors, to include any value for money studies.

The Committee is independent from other executive management and Cabinet and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference as per the constitution (Appendix 1). This includes direct access to the Council's Appointed Auditors and Head of Audit Partnership without the presence of other Officers, where appropriate.

The Committee monitors internal and external audit activity, reviews, and comments on the effectiveness of the Council's regulatory framework, and reviews and approves the Council's annual statements of accounts.

The Committee is not a substitute for the management function in relation to internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

As per CIPFA's Position statement: Audit Committees in Local Authorities and Police:

Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an Audit Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

Membership & Meetings

During 2021/22 the Audit Committee was comprised of Members and met four times. It was agreed. A quorum of three was present at each meeting. The attendance of the meetings can be found in the table below.

In addition to the above meeting, an additional meeting was held in May 22, to elect a new Chair and Vice Chair for the Municipal Year 2022-23. It was resolved that Cllr Derek Carnell be elected Chair, and Mike Henderson the Vice Chair.

Name of Attendees	Role	26th Jul 2021	26th Oct 2021	24th Nov 2021	9th Mar 2022
Cllr Simon Clark	Chair	Present	Present	Apologies	Present
Cllr James Hall	Vice Chair	Apologies	Remotely	Apologies	Remotely
Cllr Derek Carnell	Member	Present	Present	Apologies	Present
Cllr Steve Davey	Member	Present	Present	Present	Present
Cllr Simon Fowle	Member	Absent	Present	Apologies	Apologies sent substitute
Cllr Ann Hampshire	Member	Present	Present	Apologies sent substitute	Present
Cllr Denise Knights	Member	Present	Apologies	Present	Remotely
Cllr Peter MacDonald	Member	Present	Present	Present	Present
Cllr Eddie Thomas	Member to Oct 21	Apologies	Apologies sent substitute	-	-
Cllr Mike Henderson	Member from Nov 21	-	Present as substitute	Apologies	Present
Cllr Mike Whiting	Substitute Member	-	-	Present as substitute (Temp. Chair)	Present as substitute
Cllr Roger Clark	Visiting Councillor	-	-	-	Remotely
Cllr Peter Neal	Visiting Councillor	-	-	-	Remotely
Cllr Cameron Beart	Visiting Councillor	Remotely	In attendance	Remotely	Remotely
Cllr Ken Rowles	Visiting Councillor				Remotely
Cllr Hannah Perkin	Visiting Councillor	-	-	Remotely	-
Philippa Davies	Committee Services	In attendance	-	-	-
Billy Attaway	Committee Services	In attendance	-	-	In attendance
Kellie MacKenzie	Committee Services	-	In attendance	In attendance	-
Jo Millard	Committee Services		In attendance	In attendance	Remotely
Alison Blake (Officer)	Deputy Head of Audit Partnership	In attendance	In attendance	-	In attendance
Rich Clarke (Officer)	Head of Internal Audit	-	In attendance	In attendance	-
Julie Hetherington (Officer)	Internal Audit Manager	-	-	-	Remotely

Andrew Townsend (Officer)	Interim Head of Internal audit	-	-	-	Remotely
Lisa Fillery (Officer)	Director of Resources			In attendance	In attendance
Phil Wilson (Officer)	Financial Services Manager	In attendance	In attendance	-	In attendance
Richmond Nyarko (External Audit)	External Audit	-	-	-	Remotely
Darren Wells (External Audit)	External Audit	In attendance	-	-	Remotely

We did not arrange any all-Member training sessions for 2020/21. However, / in addition Members have been able to consult Officers with questions outside of the meetings. The Committee has also arranged training for prior to the July 22 committee meeting, and has agreed additional training throughout the year.

All Committee agendas, papers, and minutes are available on the [Council's website](#).

Committee Activity

Over the course of 2020/21 the Committee has drawn on a variety of sources to fulfil their responsibilities. They have considered, queried, examined, and made decisions on the following areas within its Terms of Reference:

Finance Activity

Treasury Management Outturn Report for 20/21 – Oct 2021

The report presented to Members was prepared in line with the CIPFA's Code of Practice on Treasury Management. It included Prudential Indicators and Treasury Management Strategy Statement on Financing and Investment Activities.

Members approved the Treasury Management Stewardship report for 2020/21, and the Prudential and Treasury Management Indicators.

Mid-Year Treasury Management Review for 21/22 – Nov 2021

This report was presented to Members. It outlined the mid-year outturn position on treasury management transactions for 2021/22, including compliance with treasury limits and Prudential and Treasury Performance Indicators.

Members noted the report, and the Prudential and Treasury Management Indicators were approved.

Internal Audit Activity

Annual Internal Audit Report & Opinion 20/21 – Jul 2021

The annual assurance report on the Council's Internal Control, Governance, and Risk Management activities was presented to Members. The report concluded that the Head of Audit was able to provide sound assurance with no qualifications to the opinion.

Members noted the opinion, and the Head of Audit Partnership's assurance of independence and conformance with the standards.

Mid-Year Internal Audit Update – Nov 2021

The internal audit update report presented to Members, detailed the progress against the audit plan for 2021/22.

Members noted the report.

Internal Audit Plan 2022/23 – Mar 2022

The internal audit plan for 2022-23 was presented to Members for their approval. Members approved the 2022/23 audit plan, and noted there was enough resources to deliver the plan independently and without inappropriate influence from management.

External Audit Activity

External Audit Plan – Jul 2021

External audit presented to Members the report which included an overview of the scope, cost, and timing of the audit for 2020/21.

Members noted the External Audit Plan.

Informing the Risk Assessment – Jul 2021

External audit presented to Members a report on the communication between them and the Audit Committee, around the responses from management about General Management, Fraud, Laws and Regulations, Related Parties, and Accounting Estimates.

Members noted the report.

Annual Report 20/21, and Audit Findings Report – Oct 2021

The Annual Financial Report for 2020/21 was presented to Members. The report issued an unmodified audit opinion. This meant that no major adjustments were required to the Council's annual financial report.

Members noted the report findings. Members approved the Letter of Representation on behalf of the Council, the Annual Financial Report, and the Annual Governance Statement for year ending March 2021. The Chair of the Committee signed and dated the Annual Financial report.

Annual Audit Letter – Mar 2022

The report presented to Members, provided the audit findings and matter arising from the Annual Financial Report for year ending 31/03/21. It included recommendations to be considered or noted.

Members noted the report and the savings plan in relation to the Medium Term Financial Strategy. Consideration to be given making a clear distinction between statutory and discretionary spending in budget information provided to members and published on the web, and to formalise a consistent approach to benchmarking in relation to potential high unit costs or low outcomes.

Other Activity

Audit Committee Annual Report 20/21 – Jul 2021

A report on the activity of the Audit Committee was presented to members. It outlined the attendance of members, details the Terms of Reference for the committee, and activity of the committee throughout the year.

The Audit Committee Annual report was agreed by Members, and the Chair of the Audit Committee will present the report to Full Council to discharge their duties.

Re-appointment of External Auditor – Option to opt into national scheme – Nov 2021

The report provided proposals for appointing the external auditor to the Council for the accounts for the five-year period from 2023/24, including a decision to opt into the national auditor appointment arrangements.

Members accepted the invitation to opt-in to the national arrangements to appoint external audit.

Annual Risk Management Update 21/22 - March 2022

The report detailed for Members the Council's risk management framework arrangements.

Members noted the risk management framework arrangements.

Conclusion

The Audit Committee has worked in partnership with the Council's Internal and External Auditors and received support from Officers. This has provided robust and effective independent assurance to the Council on a wide range of risk, governance, and internal control issues.

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2021/22 as set out in the respective minutes.

Appendix 1 – Audit Committee Terms of Reference

Statement of Purpose – Audit Committee

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Membership – nine members

Audit Activity

- To consider the Head of Audit Partnership's annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements, and any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.
- To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the 3 year Strategic Internal Audit Plan;
- To consider the external auditor's annual letter, the report to those charged with governance, and any specific reports as agreed with the external auditor;
- To liaise with the Audit Commission over the appointment of the Council's external auditor, comment on the scope and depth of external audit work and ensure that it gives value for money;

Regulatory Framework

- To review any issue referred to it by the Chief Executive or the Director or any Council body;
- To monitor the effective development and operation of risk management and corporate governance in the Council.
- To monitor council policies on 'Whistleblowing' and the 'Anti-fraud and Corruption Strategy';
- To consider and comment on the authority's Annual Governance Statement and agree its adoption as part of the approval of the annual accounts.
- To consider the Council's arrangements for governance and whether adequate safeguards are in place to secure compliance with its own and other published standards and controls and best practice.

Accounts

- To review and approve the annual statement of accounts. Specifically, to consider whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Cabinet or the Council.
- To consider the external auditor's report to those charged with governance on issues from the audit of the accounts.
- To be responsible for ensuring effective scrutiny of the treasury management strategy and policies (Note: Council is responsible for adopting the Treasury Management strategy and policy).

Reporting

- To present an annual report to the Council providing assurance that the responsibilities of the Committee have been met.

Audit Committee Meeting	
Meeting Date	25 July 2022
Report Title	Annual Governance Statement 2021/22
EMT Lead	Director of Resources – Lisa Fillery
Head of Service	
Lead Officer	
Classification	Open
Recommendations	1. The Chair and Members of the Audit Committee are asked to review and endorse the Annual Governance Statement to be included in the Council’s Statement of Accounts 2021/22.

1 Purpose of Report and Executive Summary

- 1.1 The Council is required by statute to seek the agreement of the Audit Committee to the Annual Governance Statement (AGS) which will form part of its Annual accounts. The statement reviews the Council’s corporate governance and risk management processes and identifies any significant governance issues. The AGS is attached as appendix I to this report.

2 Background

- 2.1 An annual review of the Council’s governance arrangements and the subsequent preparation and publication of an AGS are statutory requirements by virtue of the Accounts and Audit Regulations (England) 2015. The AGS forms part of the Annual Statement of Accounts and so will be published with the draft accounts that will be subject to external audit over the summer.
- 2.2 The Council’s governance arrangements in place during 2021/22 have been reviewed and an AGS has been drafted which shows our governance compliance.
- 2.3 The AGS has been prepared in accordance with good practice set out the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in the document “Delivering Good Governance in Local Government” and the Accounts and Audit Regulations. Cabinet agreed a Local Code of Governance on 14 June 2017 which reflected these documents.

3 Proposals

- 3.1 The AGS provides members with the results of our yearly assessment of how well we are identifying, assessing, managing, and controlling risks, achieving our aims, and meeting the responsibilities we have by law.
- 3.2 We are responsible for making sure that we:
- carry out our business in line with the law and proper standards;
 - protect public money and account for it properly; and
 - use public money economically, efficiently and effectively
- 3.3 Committee members are asked to approve the AGS for inclusion within the Annual Statement of Accounts. Audit findings on the Statement will be reported back to this Committee in advance of the publication of the final Statement of Accounts in November. Recommendations specific to amendments to the AGS will be reported by exception if required.

4 Alternative Options

- 4.1 If the AGS is not approved this committee could recommend amendments to the Statement.

5 Consultation Undertaken or Proposed

- 5.1 The AGS has been produced in conjunction with Strategic Management Team and has been reviewed by the Monitoring Officer.
- 5.2 Regular reporting of the Council's corporate and operational risks, help inform the details contained within this statement.

6 Implications

Issue	Implications
Corporate Plan	The Annual Governance Statement covers all service areas and governance of council services that deliver the Corporate Plan
Financial, Resource and Property	Agreement of the AGS is a key part of the process for producing and agreeing the Council's statutory accounts.
Legal, Statutory and Procurement	Need to comply with the Accounts and Audit Regulations.
Crime and Disorder	No implications

Environment and Climate/Ecological Emergency	No implications
Health and Wellbeing	No implications
Safeguarding of Children, Young People and Vulnerable Adults	No implications
Risk Management and Health and Safety	Risk management process informs preparation of the AGS
Equality and Diversity	No implications
Privacy and Data Protection	No implications

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Annual Governance Statement 2021/22.

8 Background Papers

- 8.1 Guidance Notes from CIPFA and SOLACE are held by the Director of Resources.

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Swale Borough Council
Annual Governance Statement 2021-22
(Extract from Statement of Accounts)

1. Scope of Responsibility

- 1.1 Swale Borough Council is responsible for ensuring that:
- (i) its business is conducted in accordance with the law and proper standards;
 - (ii) public money is safeguarded and properly accounted for; and
 - (iii) public money is used economically, efficiently and effectively.
- 1.2 The Council also has a duty under the Local Government Act 1999 to make arrangements to secure 'Best Value' in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In meeting this obligation, the Council has a responsibility for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.4 In June 2017 the Cabinet agreed an updated Local Code of Corporate Governance based upon the 2016 Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework 'Delivering Good Governance in Local Government'. There are no changes to the Code for this year but it notes that it is important that the Annual Governance Statement is kept up to date at time of publication. However, in March 2022 the Chartered Institute of Public Finance and Accountancy (CIPFA) Practice Oversight Panel issued an advisory note on governance. The note emphasises that all local authorities should reflect upon any weaknesses in governance identified and identify learning points to mitigate the risk of similar issues arising. In addition, CIPFA requires councils to continue to consider the impact of Covid 19 on their governance arrangements, and to disclose compliance with the CIPFA Financial Management Code and identify any outstanding areas for improvement or change.
- 1.5 This Statement explains how Swale Borough Council has complied with the principles of good governance and reviews the effectiveness of these arrangements. It also meets the requirements of the Accounts and Audit Regulations 2015 (Amended).
- 1.6 The May 2019 elections resulted in control of the Council passing to a five party coalition comprising the Labour, Swale Independent Alliance, Liberal Democrats, Green and Independent groups. The administration has a very well defined programme which they are implementing.
- 1.7 This year has seen a change in the section 151 officer for the Council. The role was covered internally by the Head of Finance and Procurement from July 2021 until October 2021 when the Director of Resources took up post.

2. Impact of Covid 19 on the Council

- 2.1 Covid 19 was the most significant event this country has dealt with since the end of World War 2. Government looked to councils to take a major role in the response primarily in supporting the most vulnerable in the community, passing on financial support to businesses, enforcing lockdown measures and promoting vaccinations. Whilst the position was slightly improved from the experience of 2020/21, the

continuation of government backed grants to individuals and businesses increased the workload for the teams responsible for delivering the grants.

- 2.2 In governance terms the weekly meetings of Informal Cabinet continued to focus on Covid related issues with all of the Strategic Management Team (SMT) and other key officers in attendance. SMT meetings also focussed on Covid and with additional weekly meetings of SMT reintroduced when lockdowns were in place.
- 2.3 During the initial lockdown period in 2020/21 all staff left the building and the majority of staff continue to work from home for an average of 3 days per week. IT technology of the Council continues to support the hybrid approach to home and office based work and the previous decision to move all staff to work on laptops was highly beneficial. All councillors were also allocated a Swale laptop. In general staff adapted very well to working from home.
- 2.4 Council committee meetings continued to be held where possible, with a brief period in January 2022 when meetings were cancelled due to the rise in Omicron cases. The council's Emergency Committee met in this period to enable a small number of urgent decisions to be taken with other business was postponed to future meetings which subsequently were able to be held.
- 2.5 Reflecting on the experience with covid and the uncertain future course of the pandemic, a new delegation to the chief executive was agreed in January, enabling her in emergencies or other circumstances in which the council or a committee cannot meet, to take decisions which would otherwise be taken by members. The decisions will have regard as fully as possible to the views of the members who would otherwise have made the decision.
- 2.6 Financially the impact of Covid continues to be felt, with income receipts still falling short of the revised targets as the pandemic continues for far longer than expected. Government support for income losses was made available for the first quarter of 2021/22 but losses continued throughout the whole financial year. Financial planning for 2022/23 includes assumptions on a permanent loss of some of our sources of income that are not expected to recover to pre pandemic levels.
- 2.7 As reported in this statement for last year, an already under resourced staffing structure has been stretched well beyond its limits, individual members of staff have responded incredibly well but the long-term impact of these demands and in general of Covid cannot be overestimated. Much the same applies to councillors. The impact of Covid on the Council will be long lasting.
- 2.8 In addition to the impact of Covid, the council is also having to manage the cost of living crisis. This has implications for both the cost of council services and cost of living for our residents. Budget provision has been made for an element of inflationary increases in our costs, but the constant rise in inflation is a significant risk to the budget.

3. The Purpose of the Governance Framework

- 3.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives, and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- (i) identify and prioritise the risks to the achievement of Council's policies, aims and objectives;
 - (ii) evaluate the likelihood of those risks being realised and the impact should they be realised; and,
 - (iii) manage them efficiently, effectively and economically.
- 3.3 The governance framework has been in place at the Council for the year ended 31 March 2022, and up to the date of approval of the Statement of Accounts.

4. The Council's Governance Framework

- 4.1 A brief description of the key elements of the Council's governance framework is described below.

Communicating the Council's Vision

- 4.2 In October 2020 Council agreed a new Corporate Plan "Working together for a better borough". The plan is structured around four high level priorities, each containing a number of specific objectives. The four priorities are:
- (i) Building the right homes in the right places and supporting quality jobs for all.
 - (ii) Investing in our environment and responding positively to global challenges.
 - (iv) Tackling deprivation and creating equal opportunities for everyone.
 - (v) Renewing local democracy and making the council fit for the future.
- 4.3 Area Committee meetings continued in 2021/22. These are intended to have a local focus and to more widely engage councillors and the community, with four committees meeting quarterly.

Management of Resources

- 4.4 The Council seeks to use its resources efficiently and obtains value for money via a number of arrangements. These include:
- (i) A medium term financial plan and annual budget process that ensures that financial resources are directed to the Council's priorities.
 - (ii) A financial monitoring process which closely monitors expenditure and income with detailed monthly reporting to SMT and quarterly reporting to Cabinet and Scrutiny Committee.
 - (iii) The Special Project Fund created by the new administration to fund public realm projects and support the delivery of other administration priorities. This is now supplemented by the Improvement & Resilience Fund linked to the delivery of administration priorities.

- (iv) A capital strategy again directed at administration priorities in particular increasing the supply of affordable housing.
- (v) An annual review of fees and charges.

Member and Officer Working Arrangements

- 4.5 Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. For 2021/22 the administration has maintained the Cabinet system and the Cabinet consists of seven members who have responsibility for particular portfolios. The Cabinet members are supported by Deputy roles. In October 2021 the Council agreed to replace this system with a committee system which will come into effect in May 2022. A cross-party constitution review working group has developed proposals with respect to the detailed working of the new system.
- 4.6 The Council also appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are fully set out in the Council's Constitution.
- 4.7 The Constitution also includes both a Member and an Officer Code of Conduct, which describe and regulate the way in which members and officers should interact to work effectively together.
- 4.8 The Scrutiny Committee scrutinises decision-making and performance, and holds Cabinet to account for these; and a Policy Development and Review Committee, which does not have formal scrutiny powers but which provides a mechanism for non-Cabinet members to consider and feed into policy proposals before formal decisions are taken.
- 4.9 The Council's Audit Committee has a remit consistent with those identified in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities'. It provides assurance to the Council on the effectiveness of its governance arrangements, risk management framework, and internal control environment. The Committee regularly reviews the internal audit work programme, the results of internal audit work, and management's implementation of audit recommendations.
- 4.10 A central role on governance issues is undertaken by the Council's three statutory officers; the Head of Paid Service, the Monitoring Officer and the Chief Financial Officer. As reported above a new Chief Financial Officer was appointed during 2021/22.
- 4.11 The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's services, the work of the Council's employees, and the work undertaken for the Council by a variety of partners and contractors who deliver a wide range of services to the community. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council and is currently held by Larissa Reed.
- 4.12 Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 to the Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. The Head of Policy, Communications and Customer Services Mr David Clifford is responsible for:

- (i) Ensuring that the Council acts and operates within the law. He has a duty to report to the whole Council if he believes any action or proposal has been or is likely to be contrary to the rule of law.
- (ii) Maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution.
- (iii) Dealing with complaints against members under the Code of Conduct, supporting the Council's Standards Committee, and helping to promote and maintain high standards of conduct by Council members, officers, partners and contractors.
- (iv) Establishing and maintaining registers of interests, gifts and hospitality for members and officers.
- (v) Receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.

4.13 The Chief Financial Officer (CFO), as the Section 151 Officer appointed under the 1972 Local Government Act, carried overall responsibility for the financial administration of the Council. As a result of a reorganisation in 2021/22, the new role of Director of Resources assumed these responsibilities, with Lisa Fillery being appointed to this role in October 2021. The Council's governance arrangements relating to this role comply with those arrangements set out in the CIPFA statement on the role of the Chief Financial Officer in Local Government (2010).

4.14 The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership - an arrangement covering the three Mid Kent Services Councils and Ashford Borough Council. From January 2022 the position was covered by an interim Head of Audit. The partnership is in the process of replacing the position on a permanent basis. This role is responsible for the Council's internal audit service, including drawing up the Internal Audit Strategy and related annual plan, and giving the annual Audit Opinion. The Council's arrangements conform to Public Sector International Audit Standards, as independently assessed by the Institute of Internal Audit. The Standards are the "proper practices in relation to internal control" referenced in the Accounts and Audit Regulations 2015 (Amended). The Head of Audit Partnership's operational responsibilities are set out in the Internal Audit Charter and are consistent with the independence requirements set out in the Standards. The Head of Audit Partnership role also conforms to the principles set out in the CIPFA Statement on the Role of Head of Internal Audit (2019).

4.15 The Council has clearly set out terms and conditions for the remuneration of members and officers, and there is an effective structure for managing the process of review. A Scheme of Members' Allowances has been set by the Council, having regard to a report of an Independent Panel made up of non-Councillors. The Council sets and publishes a 'Pay Policy Statement' which provides transparency with regard to the Council's approach to setting the pay of its employees. The 'Pay Policy Statement' is reviewed annually.

4.16 All employees should have clear conditions of employment, and job descriptions which set out their roles and responsibilities.

Promoting Values and Upholding High Standards of Conduct and Behaviour

- 4.17 The Council has a Standards Committee to promote high standards of member conduct. Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties.
- 4.18 Officer behaviour is governed by the Officer Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work and the link between that work and their private lives.
- 4.19 The Council takes fraud, corruption and maladministration seriously, and as such has established policies and processes which aim to prevent or deal with such occurrences. These include:
- (i) An Anti-Fraud and Anti-Corruption Strategy.
 - (ii) A Whistleblowing Policy.
 - (iii) Various HR policies regarding discipline of staff involved in such incidents.
 - (iv) Various procurement policies.
 - (v) A corporate complaints procedure exists to receive and respond to any complaints received.
- 4.20 Arrangements exist to ensure that members and employees are not influenced in their decision-making by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:
- (i) Registers of disclosable pecuniary and non-pecuniary interests;
 - (ii) Declarations of disclosable pecuniary and non-pecuniary interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
 - (iii) Register of interests for officers;
 - (iv) Registers of gifts and hospitality for members and officers;
 - (v) An Equalities Scheme and Equal Opportunities Policies; and
 - (vi) Member induction and ongoing member training.

Taking Informed and Transparent Decisions and Managing Risk

- 4.21 The Council's decision-making processes are clear, open and transparent. The Council's Constitution sets out how the Council operates and the processes for policy and decision-making. Key as well as non-key executive decisions are published in the Council's Forward Plan. Agendas and minutes of all meetings are published on the Council's website.
- 4.22 The Council provides decision-makers with full and timely access to relevant information. The Cabinet report template requires information to be provided explaining the legal, financial and risk implications of decisions, as well as inter alia implications for the corporate priorities, and any equality and diversity implications.
- 4.23 The Council has a well embedded approach to the management of risk and this has been fully updated to reflect the priorities of the new administration. The Audit Committee maintains an oversight of the process.

Developing the Capacity and Capability of Officers and Members

- 4.24 The Council recognises that the success of its business is built upon the knowledge, expertise, and commitment of its workforce. Development and retention of staff therefore remains a priority for the Council. During 2021/22 a new system Check-In was introduced to streamline the staff management and performance appraisal process.
- 4.25 The council's new structure with two Directors and an additional Head of Service (time limited for two years) was implemented in 2021/22 with all post holders now recruited.
- 4.26 In October 2021, the council held a staff survey using the B-Heard Survey facilitated by Best Companies Ltd. The results ranked Swale within the top 100 companies to work for across the UK and within the top 10 for our sector. Whilst the results were positive, there are areas for improvement. The staff engagement panel and a member working group are working to devise a plan of action to address the areas where we need to improve.
- 4.27 The cross-party Member Development Working Group takes an overview of the approach to member development. It continues to operate to the principles which underpin the Member Development Charter.

Engagement with Local People and Other Stakeholders to Ensure Robust Public Accountability

- 4.28 The Council engages with partners and stakeholders through various partnerships to ensure collaboration on strategic issues and joint responsibility for working together for the benefit of the residents of Swale.
- 4.29 The Council also engages with the voluntary, community and business sectors, working closely with Swale CVS and communicating through the Swale Community Empowerment Network. It also disseminates and incorporates information about the Council within various e-bulletins and newsletters that go to these groups.
- 4.30 In addition, the Council uses a variety of corporate communications channels to engage with and inform local people about the work of the Council and its decisions including:
- (i) Ensuring the Council provides an accessible website for delivering online services, providing a comprehensive information source and easy access to transparency data.
 - (ii) Transparent processes for undertaking consultations, public meetings, Council and Committee meetings with free public access to consultation documents and responses, meeting agendas, reports and minutes via the Council website.
 - (iii) Publishing and distributing 'Inside Swale' magazine to 60,000 households every quarter to provide a trusted source of Council news and information.
 - (iv) Comprehensive use of official social media and email bulletins to promote the Council services and engage with stakeholders, responding to local peoples' comments, questions and concerns online.

- (v) Providing an 'Ask the leader' channel to enable any stakeholder the opportunity to engage directly with the leadership, with all questions and responses openly published on the Council website.

Outcomes and value for money

- 4.31 Much of this document is concerned with processes for governance and promoting internal control. But it is essential to consider to what extent do the organisation's governance arrangements support the achievement of outcomes and delivery of value for money.
- 4.32 From a financial perspective the 2021/22 outturn is an underspend. The elimination of Revenue Support Grant is highly disadvantageous to a Council such as Swale with both a low absolute level of Council tax, a relatively low Council tax base and high levels of need. The use by Government of deprivation as a major factor in allocating Covid funding has been hugely important for Swale. Given the highly constrained revenue budget the administration has continued to use one off funds to pump prime the achievement of their priorities.
- 4.33 Despite Covid dominating the Council's work in the year once again good progress has been made across a range of administration priorities:
- (i) Constitutional reform - Area Committees established and work is well underway to establish the committee system from May 2022.
 - (ii) New Local Plan - – progressed statutory consultations with a view to progressing to submission to Secretary of State in early 2023 taking into account the Governments increased housing targets and the Borough capacity to meet its development needs
 - (iii) Local housing company - Rainbow Homes has been established to build affordable homes. Work is ongoing to revise the initial business plans that were produced pre Covid.
 - (iv) Homelessness and rough sleeping - more resources for prevention of homelessness and rough sleeping.
 - (v) Climate change emergency action plan.
 - (vi) Improvements to town centres, coastal amenities, open spaces, visitor attractions and heritage public realm in the borough.
 - (vii) Support to community projects across the borough.
 - (viii) Spirit of Sittingbourne project for Sittingbourne delivered, with proposals to let the last of the vacant units within the site.
 - (ix) An agreed way forward for the refurbishment of Swale House and the Masters House.
- 4.34 The 2022/23 budget position had looked extremely difficult with the ongoing financial impact of Covid and increased service provision in some areas needing to be

addressed. Heads of Service were given a 5% savings target of their staffing budget and proposed increases to fees and charges to be considered. Once final notification of government funding was received a lower than initially planned use of Reserves meant that a balanced budget was achieved. The Council faces a very significant funding gap for 2023/24 and is unlikely to benefit from significant extra Government financial support- this threatens both the delivery of core business and administration priorities. A savings plan will be included in the budget preparation and MTFP work for 2023/24 which is due to start much earlier for this reporting cycle to ensure that the budget gap is addressed in a timely manner.

CIPFA Financial Management Code

- 4.35 In October 2019 CIPFA published their Financial Management (FM) Code which “is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.
- 4.36 For the 2021/22 accounts the Council is required to disclose its compliance with the FM Code and identify any outstanding areas for improvement or change. Given the financial crisis all councils have faced due to Covid there has been relatively little attention paid to the Code. Swale compares well against the Code; however, the Chief Executive and Director of Resources will be leading on ensuring that the financial sustainability of the authority in the longer term will be addressed in the 2022/23 budget and medium term plan and reporting this to members.

5. Review of Effectiveness

- 5.1 The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, through the work of internal audit, and by comments made by the external auditors and other inspection agencies.
- 5.2 The processes applied in maintaining and reviewing the effectiveness of the system of governance include:
- (i) The work of the Audit Committee.
 - (ii) The work of the Standards Committee.
 - (iii) The role of the Scrutiny Committee in holding the Cabinet to account.
 - (iv) The operation of the Council’s performance management frameworks, including an Annual Report and the wider approach to risk management.
 - (v) The work of Internal Audit as an assurance function that provides an independent and objective opinion to the Council on its control environment.
 - (vi) The external auditor’s opinion report on the Council’s financial statements, and his conclusion on whether the Council has put in place proper arrangements to secure efficiency and effectiveness in its use of resources (the Value for Money conclusion).
 - (vii) The roles of the Council’s Statutory Officers.
 - (viii) The corporate complaints procedure.
 - (ix) The anti-fraud and corruption and whistleblowing framework.

5.3 In the 2020/21 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is as follows:

Issue	Updated position
Delivery of a new senior management structure	The new senior management structure was appointed in 2021 and is developing into an effective delivery team.
Wholesale review of the constitution, possibly with a view to moving to a committee system but certainly including a significant stock-take of how well the constitution currently works to support robust decision-making and meaningful public engagement.	Council agreed the transition to committee system in October 2021. The constitution has been updated to reflect the new governance structure that was in place for the new civic year beginning May 2022.
More emphasis on prioritising delivery of administration ambitions better reflecting the capacity of the organisation	A new reporting framework for member priorities has been introduced. Regular progress updates are reported to members, with reprioritising of projects required to address capacity or issues with delivery.
Delivering our core and discretionary services with a balanced sustainable budget	The council's service provision for 2021/22 was delivered within budget, with a small underspend at outturn. A balanced budget was delivered for 2022/23, with work on the 2023/24 MTFP already underway.

6. Significant Governance Issues

6.1 There were no significant governance weaknesses in 2021/22.

6.2 The main areas for member and senior management attention in the coming year are:

- (i) Delivery of a smooth transition from Cabinet to Committee system.
- (ii) Produce a robust savings plan to support the delivery of a balanced budget.
- (iii) Develop a member-officer protocol to support good governance

Agreed:

Leader of the Council

Chief Executive

July 2022

Audit Committee		Agenda Item:
Meeting Date	25 July 2022	
Report Title	Annual Treasury Management Report 2021/22	
EMT Lead	Lisa Fillery, Director of Resources	
Head of Service	Phil Wilson, Head of Finance and Procurement	
Lead Officers	Phil Wilson, Head of Finance and Procurement and Olga Cole, Management Accountant	
Classification	Open	

Recommendations	1. Approve the Treasury Management stewardship report for 2021/22.
	2. Approve the Prudential and Treasury Management Indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The Council's Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year. The latest version of the Code was adopted by the Council in February 2021.
- 1.2 Treasury Management is defined as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council's Treasury Management objectives.
- 1.3 For 2021/22 the Investments Section of the Kent County Council (KCC) Finance Department had operational responsibility for the daily treasury management duties. KCC Finance in undertaking this work had to comply with this Council's Treasury Management Strategy. Overall responsibility for Treasury Management remained with the Council.

1.4 This report:

- is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2021/22; and
- confirms compliance with Treasury limits and Prudential Indicators.

1.5 This report will be submitted to Council on 12 October 2022.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2021 £'000	Movement in Year £'000	Balance on 31/3/2022 £'000
Capital Financing Requirement	48,373	(599)	47,774
External Borrowing	(15,000)	5,000	(10,000)
Cumulative External Borrowing Requirement	33,373	4,401	37,774

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2.3 The reason for the reduction in the CFR in 2021/22 is due to the Minimum Revenue Provision offsetting the capital spend funded from borrowing.

2.4 The table below summarises the Council's borrowing portfolio from other local authorities at 31 March 2022.

Local Authority	Loan Value £'000	Borrowing Rate	Duration of the Loan	Borrowing Date	Loan Repayment Date
Derbyshire County Council	5,000	0.30%	1 year	08/04/2021	07/04/2022
London Borough of Islington	5,000	0.40%	1 year	28/02/2022	27/02/2023

Investment Activity

- 2.5 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Council held average daily cash balances of £38 million (£38 million for 2020/21).
- 2.6 The Council's budgeted investment income for 2021/22 was £168,770 and the actual income received was £114,600, of which £106,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.
- 2.7 The table below summarises the Council's investment portfolio at 31 March 2022. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2022.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2022 £'000
Invesco MMF	AAAmmf	735
Goldman Sachs MMF	AAAmmf	3,000
SSgA MMF	AAAmmf	3,000
Morgan Stanley MMF	AAAmmf	3,000
Black Rock MMF	AAAmmf	3,000
Aberdeen MMF	AAAmmf	3,000
Debt Management Office	AA-	7,600
CCLA Property Fund	unrated	3,000
Total		26,335

- 2.8 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:
- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.
 - AA-: Expectations of very low default risk
- 2.9 The treasury management position for the year is summarised below:

Investments	Balance on 31/03/21	Movement in Year	Balance on 31/03/22	Average Rate at 31/03/22
	£'000	£'000	£'000	%
Cash and Cash Equivalents	20,115	(4,380)	15,735	0.52
Short-Term Investments	0	7,600	7,600	0.41
Long-Term Investments	3,000	0	3,000	3.54
TOTAL INVESTMENTS	23,115	3,220	26,335	
Borrowing				
Short-Term Borrowing	(15,000)	5,000	(10,000)	0.35%
TOTAL BORROWING	(15,000)	5,000	(10,000)	

2.10 The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund.

2.11 In keeping with the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts.

2.12 The Council sought to optimise returns commensurate with its objectives of security and liquidity.

2.13 The criteria applied by the Director of Resources for the approval of a counter party for deposits are:

- credit rating - a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group; and
- country exposure.

2.14 The investments permissible by the 2021/22 Treasury Strategy were:

Counterparty	Cash Limits
The UK Government (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Local Authorities and other government entities	£3m
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m

Counterparty	Cash Limits
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Strategic Pooled Funds e.g. Absolute return, Equity income, Corporate Bond Funds	£3m each
CCLA Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bonds	£3m in aggregate
Covered Bonds	£3m in aggregate with £1m limit per bank
Non treasury investments	To be agreed on a case by case basis

2.15 This administration takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at low rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget

2.16 The maximum permitted duration for deposits is 13 months. For 2021/22 the Director of Resources in consultation with the Leader and Cabinet Member for Finance could consider longer duration. Bonds could have been purchased with a maximum duration of five years.

2.17 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. At 31 March 2022 the Council held £4.03 million of a longstanding portfolio of 13 investment properties within the borough. These investments generated £0.2 million of investment income for the Council in 2021/22 after taking account of direct costs, representing a rate of return of 5.2%.

External Context

2.18 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

2.19 In its March interest rate announcement, the Monetary Policy Committee (MPC) noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to

around 8% later in 2022, even higher than forecast only a month before in the February MPC. The Committee also noted that although Gross Domestic Product (GDP) in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

- 2.20 The Government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs.
- 2.21 With the fading of lockdown activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.
- 2.22 Bank Rate was 0.1% at the beginning of the reporting period, increased to 0.25% in December 2021, the Bank of England raised it further to 0.50% in February 2022 and 0.75% in March 2022.

Credit Review

- 2.23 The outlook on a number of UK banks and building societies on the Council's counterparty list was revised upwards by Fitch and Moody's to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.
- 2.24 The successful vaccine rollout programme was credit positive for the financial services sector in general and improved the economic outlook.
- 2.25 Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

- 2.26 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 2.27 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

- 2.28 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
- 2.29 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.
- 2.30 Unlike the Prudential Code, there is no mention of the date of initial application in the revised CIPFA Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.
- 2.31 Local authorities could defer introducing the revised reporting requirements for both of these Codes until the 2023/24 financial year. The implementation of these Codes was deferred by Swale Borough Council.
- 2.32 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) have decided to defer the implementation of International Financial Reporting Standard (IFRS) 16 on Leases until 1 April 2024. However, the Council will consider whether it wishes to adopt this standard for 2022/23 or 2023/24 as this will require a review of the Council's existing lease arrangements to determine what effect the new standard will have on their value in future accounts.

Compliance

- 2.33 The Council has complied with its Prudential and Treasury Management Indicators for 2021/22 which were set as part of the Treasury Management Strategy agreed by Council in February 2021.
- 2.34 In Appendix I the outturn position for the year against each Prudential Indicator is set out.
- 2.35 The Head of Finance and Procurement confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Treasury Advisers

- 2.36 Arlingclose has been the Council's treasury advisers since May 2009. Officers of the Council meet with Arlingclose regularly and high quality and timely information is received from them.

Capital Strategy

2.37 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2021/22, complying with CIPFA's requirement, was approved by Council on 24 February 2021.

3. Proposal

3.1 Members are asked to approve the report.

4. Alternative Proposals

4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

5.1 Arlingclose have been consulted.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance
Crime and Disorder	Not relevant to this report
Environment and Climate/ Ecological Emergency	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2021/22

Introduction

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2021/22. Actual figures have been taken from or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2021/22 Actual
	£'000
Total Capital Expenditure	6,083
Source of Funding	
Capital grants and other contributions	4,829
Earmarked reserves	573
Borrowing	451
Capital receipts	201
Direct Revenue Funding	29
Total Financing	6,083

A report on the 2021/22 Capital outturn was presented to Policy and Resources Committee on 13 July 2022.

Treasury Management and Prudential Indicators for 2021/22

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/22 Estimate	31/03/22 Actual	31/03/22 Difference
	£'000	£'000	£'000
Total CFR	61,789	47,774	(14,015)
External Borrowing	(35,000)	(10,000)	25,000
Cumulative External Borrowing Requirement	26,789	37,774	10,985

External borrowing: as at 31 March 2022 the Council had £10 million of external borrowing.

Operational Boundary for External Debt: The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31/03/22 Boundary	31/03/22 Actual Debt	Complied
	£'000	£'000	
Borrowing	55,000	10,000	✓
Other Long-Term Liabilities	500	0	✓
Total Operational Boundary	55,500	10,000	✓

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/22 Boundary	31/03/22 Actual Debt	Complied
	£'000	£'000	
Borrowing	70,000	10,000	✓
Other Long-Term Liabilities	2,000	0	✓
Total Authorised Limit	72,000	10,000	✓

Treasury Management and Prudential Indicators for 2021/22

The Director of Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2021/22.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/22 Estimate %	31/03/22 Actual %	Difference %
General Fund Total	5.11	4.83	0.28

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/22 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	100	100	0	✓
12 months and within 24 months	0	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Treasury Management and Prudential Indicators for 2021/22

Investment Benchmarking

Average Actual Return on Investments 2021/22	Original Estimate Return on Investments 2021/22	Average Bank Rate 2021/22	Average 7-day SONIA Rate 2021/22
0.30%	0.50%	0.19%	0.15%

SONIA is the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

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Audit Committee Meeting	
Meeting Date	25 July 2022
Report Title	Annual Internal Audit Report & Opinion 2021/22
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Andrew Townsend – interim Head of Audit Partnership
Lead Officer	Andrew Townsend – interim Head of Audit Partnership
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. That the Audit Committee notes the interim Head of Audit Partnership’s opinion. 2. That the Audit Committee notes the work underlying the opinion and the interim Head of Audit Partnership’s assurance of its independent completion in conformance with proper standards.

1 Purpose of Report and Executive Summary

- 2.1 This report delivers the Head of Internal Audit annual reporting directed by the Public Sector Internal Audit Standards (the “Standards”). The report includes the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control. This opinion feeds into the Annual Governance Statement for 2021/22.

2 Background

- 2.1 Internal audit is a compulsory service for authorities as set out by Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit as described in that Regulation is: “[to] undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance”.
- 2.2 The Standards, in particular Standard 2450 (Overall Opinions) direct the annual report to include:
- The annual audit opinion
 - A summary of work completed that supports the opinion, and
 - A statement on conformation with Standards.
- 2.3 We have completed the work set out in the plan in full conformance with the Standards. We have also worked independently, free from undue influence of either officers or Members.

- 2.4 As those charged with overseeing governance, the Audit Committee must consider the Annual Internal Audit Opinion.

3 Proposals

- 3.1 The interim Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2021/22. The Committee is asked to note this opinion.
- 3.2 The full Annual Report for 2021/22 is attached as an Appendix. This report includes a summary of all work conducted to support the opinion and affirms the independence and effectiveness of the internal audit service.
- 3.3 We present the opinion and associated report for noting and for Members to consider alongside their evaluation of associated year end reports into the Council's finance and governance. This report does not seek any substantive decision or action from the Council as a direct result.

4 Alternative Options

- 4.1 N/A

5 Consultation Undertaken or Proposed

- 5.1 We consult and agree with relevant Heads of Service before finishing all findings and recommendations arising from individual audit engagements. The headline messages in our report have been discussed with the Senior Management Team and have been shared to help prepare the Annual Governance Statement.

6 Implications

This report and opinion are for noting and to support consideration of other year end reporting into the Council's finances and governance. It does not propose or prescribe any specific action as a result. Therefore this report has no specific impact in any of these areas but instead below is a general commentary on issues relevant to each heading.

Issue	Implications
Corporate Plan	Mid Kent Audit's work supports all Council activity and the wider Corporate Plan in evaluating governance.
Financial, Resource and Property	The work programme completed was carried out within agreed resources.
Legal, Statutory and Procurement	The Council is required by Regulations to deliver a conforming internal audit service.

Crime and Disorder	No direct implications.
Environment and Climate/Ecological Emergency	No direct implications.
Health and Wellbeing	No direct implications.
Safeguarding of Children, Young People and Vulnerable Adults	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering areas for audit review. In turn, audit findings will provide feedback on identification and management of risk.
Equality and Diversity	No direct implications.
Privacy and Data Protection	We handled all information collected by the service in line with the data protection policy of our host authority (Maidstone BC).

7 Appendices

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

- Appendix I: Internal Audit Annual Report 2021/22

8 Background Papers

Full reports which support the audit engagements summarised in this annual report are available.

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**Annual Internal Audit Report
and
Opinion 2021/22**

May 2022

Swale Borough Council

Introduction

1. This is the 2021/22 Annual Report by Mid Kent Audit on the internal control environment at Swale Borough Council ('the Council'). The annual internal audit report summaries the outcomes of the reviews that have carried out on the Council's framework of governance, risk management and internal control and is designed to assist the Council making its annual governance statement.
2. This report provides the annual head of audit opinion ('Opinion statement') and a summary of the key factors taken into consideration in arriving at the Head of Audit Opinion statement, as at 31 May 2022. This includes incorporation of the CIPFA guidance on the potential limitation of scope brought about by the impact of COVID-19.

Head of Internal Audit Opinion statement

3. The Head of Audit Opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within the agreed work programme. For risks not directly examined reliance has been taken, where appropriate, from other associated sources of assurance to support the Opinion statement (an explanatory note is included at Annex A).
4. The Head of Audit Opinion statement for 2021/22 is:

The planned programme of work delivered by internal audit was constrained by the impact of the COVID pandemic restrictions and significant staffing changes within the internal audit team. The results of the reduced level of internal audit work concluded during the year required me to seek additional assurances to form my opinion. A summary of where it has been possible to place reliance on the work of other assurance providers is presented in the annual internal audit report. Utilising all these forms of assurance I am able to draw a positive conclusion as to the adequacy and effectiveness of Swale Borough Council's risk management, control and governance processes. In my opinion, Swale Borough Council has adequate and effective management, control and governance processes in place to manage the achievement of their objectives.

Matters impacting upon the Opinion statement

5. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. Consequently, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing

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internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.

6. Mid Kent Audit recognises the considerable challenges and the difficult decisions that the Council had to deal with during 2021/22, however, the professional and regulatory expectations on public bodies to ensure that their internal audit arrangements, including providing the annual Opinion statement, conform with the Public Sector Internal Audit Standards (PSIAS) have not changed.
7. Factors that need to be taken in to account in reaching the Opinion statement include:
 - Changes in ways of working: Have these led to gaps in the governance, risk management and control arrangements?
 - Independence of internal audit: Have any limitations in the scope of individual audit assignments resulted in it only being possible to place partial assurance on the outcome?
 - Internal audit coverage: Has any reduction in internal audit coverage compared to what was planned resulted in insufficient assurance work?

Changes in ways of working

8. The following are the main considerations which impacted upon the provision of the Opinion statement for 2021/22. These are not in any priority order and in a number of cases there is an inter-relationship between two or more of these considerations.
 - The impact of COVID-19 on many organisations has continued to be felt throughout 2021/22 with restrictions continuing to be applied. These have impacted staff availability and organisational capacity.
 - Remote working and greater use of digital forms of operation and communication had to be instigated in a period of months, rather than the years which would normally be the case for such major changes.
 - New systems to assist in mitigating the impact of the pandemic on the local community had to be implemented at short notice using existing staff resources, which diverted them from their normal duties. It is acknowledged that this has affected some organisations more than others.
 - The significant increase in cyber attacks against all organisations to obtain

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unauthorised access to data and the consequential need for ongoing updating and vigilance in terms of security of data held.

Independence of internal audit

9. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each Council supervises the service under a collaboration agreement.
10. Within the Council during 2021/22 Mid Kent Audit has continued to enjoy complete and unfettered access to officers and records to complete its work. On no occasion have officers or Members sought or gained undue influence over the scope or findings of any of the work carried out.

Internal audit coverage

11. Mid Kent Audit has experienced significant turnover of staff throughout the financial year, including the departure of both the Head of Audit and Deputy Head of Audit. There was also a change of Audit Manager part-way through the year. Timely action was taken to appoint interims to all the senior management positions, but it is acknowledged that a significant level of local knowledge and experience of the Council was lost during the year.
12. The Council's Audit Committee approved the 2021/22 Audit & Assurance Plan on 10 March 2021. The selection, prioritising and scoping of the audit reviews in this Plan was overseen by the then Head of the Audit Partnership.
13. There has been impairment in terms of the planned internal audit coverage for 2021/22. This has been due to the knock-on effect of the late completion of the 2020/21 planned work and the significant churn in terms of staff within Mid Kent Audit. There were also a number of reviews which have either been deferred or cancelled at the request of management. As a consequence a number of the audit reviews set out in the 2021/22 Internal Audit Plan have not been completed in time to inform the 2021/22 Opinion Statement. One such impairment is that no ICT internal audit reviews were completed in the year. This is a timing matter, rather than systematic of any issue in respect to the Council's governance, risk and control framework. The team at Mid Kent Audit has worked diligently at the delivering the work and this timing issue is not a reflection upon the efforts of the current team.

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Arriving at the Opinion statement

Reliance on internal audit work performed

14. Audit evidence to support the Opinion statement on internal control is derived principally through completing the reviews set out within the agreed Audit Plan. The 2021/22 Audit & Assurance Plan provided for 17 reviews to be carried out.
15. For the reasons explained in paragraph 13, above, only nine of these reviews were completed in time to inform the 2021/22 Opinion statement. These reviews are shown in the table below. Of these there were no reviews where the assurance grading was either 'Poor' or 'Weak'. There were no Priority 1 (Critical) Actions which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority.

Audit Review	Priority	Assurance assessment	Number of Actions by priority grading			
			1	2	3	4
CCTV & Monitoring	1	Sound	-	-	4	-
Residents' Parking (X-Cut)	1	Sound	-	-	3	1
Planning Performance Agreements	1	n/a	-	1	1	-
Business Rates	2	Sound	-	-	1	1
Building Control	2	Sound	-	-	3	2
Safeguarding	2	Sound	-	-	3	2
Complaint Handling	2	Sound	-	-	5	4
Apprenticeships (X-Cut)	2	Sound	-	-	-	4
Planning Administration (X-Cut)	2	Sound	-	-	-	6

16. A summary of the Assurance assessments and Action priority level definitions is provided in Annex B.
17. An overview of the key findings from each of the finalised reviews for which details have not been previously provided in the 2021/22 Progress Report to the Audit Committee is provided in Annex C. These finding do not indicate any significant Council-wide weaknesses in the corporate governance, risk or control framework.
18. A reconciliation to the work performed to the approved Audit & Assurance Plan for 2021/22 is provided in Annex D.

Reliance on other sources of assurance

19. Where appropriate, reliance has been placed upon previous internal audit work and other work performed by Mid Kent Audit, including:

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- The unqualified 2020/21 Opinion statement is dated July 2021 and therefore effectively includes coverage of the first four months of the 2021/22 financial year. Furthermore, the equivalent of an interim head of audit opinion for the Council was obtained from the then Head of the Audit Partnership at the time of their departure. This interim opinion covered the period April – December 2021 and raised no matters of concern.
- The findings of previous years’ internal audit work carried out (paras 20 & 21 below refers).
- The outcomes of the follow up work carried out to confirm control weaknesses identified by internal audit have been effectively mitigated (paras 22 - 23 below refers).
- The outcomes of the consultancy, investigations and counter fraud work carried out by Mid Kent Audit for the Council (paras 24 - 25 below refers).
- Mid Kent Audit’s interim Deputy Head of Audit’s work on the risk management arrangements at the Council (para 26 below refers).

20. **Previous years’ internal audit work:** The Annual Internal Audit Report for 2020/21 reported that there have only been one audit review carried out by Mid Kent Audit where there were assurance assessments of ‘Weak’ or ‘Poor’.

21. There was one review from the 2020/21 Audit Assurance Plan which was not completed until 2021/22 and therefore this review has been used to assist in informing the 2021/22 Opinion statement. A summary of the findings arising from this review was reported to the November 2021 meeting of the Audit Committee. This review is:

Audit Review	Assurance assessment	Number of Actions by priority grading			
		1	2	3	4
Bailiff Services	Sound	-	-	-	2

22. **Following up Actions:** Recommendations (Actions) are made in the audit reports to further strengthen the control environment in the area reviewed. Management provide responses as to how the risk identified is to be mitigated. Throughout the year Mid Kent Audit carried out checks to ascertain the extent to which the agreed Actions had been addressed by management and that the risk exposure identified has been mitigated.

23. During 2021/22 61 Actions were followed up and the table below summarises the extent to which the identified risk exposure have been mitigated. These 61 Actions include all those either made in 2020/21, or carried forward from a previous financial year. All 7 Priority 2 (High) Actions have now all been cleared and this

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indicates that there are no high risk exposure Actions made in 2020/21, or earlier, where there remains a material unmitigated controls risk position.

Extent of control risk mitigation	Number of Actions by priority grading			
	1	2	3	4
Opening number	-	7	23	31
Current status: Cleared	-	5	18	28
Not yet due to be actioned	-	2	5	1
Not yet actioned	-	-	-	-
Closed - Council accepts risk	-	-	-	2

24. **Outcomes of other work carried out by Mid Kent Audit:** Mid Kent Audit provides an independent counter fraud service for the Council. This service excludes benefits investigation work which is carried out by Mid Kent Services. The following counter fraud work was carried out during 2021/22:
- No matters were raised with Mid Kent Audit in relation to concerns under the Public Interest Disclosure Act.
 - Significant levels of checking on data matching matters arising as part of the National Fraud Initiative have been carried out and reported to the Council. From the work to date no material internal control deficiencies were identified from this data matching work.
 - One minor investigation into beta testing of a website was carried out and this did not identify any material internal control deficiencies.
25. There were no matters identified through the counter fraud work carried out which have a material impact upon the corporate governance, risk and internal control framework of the Council.
26. **Outcomes of risk management work carried out by Mid Kent Audit:** Mid Kent Audit provides an independent risk management service for the Council, specifically in relation to operational risk management. During 2021/22 the Council has been introducing a new Risk Management Framework and identifying its operational risks. A separate report, the Annual Risk Management Report (2021/22) was presented to the Audit Committee at its March 2022 meeting. The purpose of that report was to provide assurance that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately.

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Reliance on other sources of assurance

27. For the reasons set out earlier in the Report it has been necessary for 2021/22 to place some reliance upon a number of 'other assurance providers' and these are summarised below:
- The work of the MKS benefits fraud team (para 28 below refers).
 - The outcomes of external reviews of the Council's ICT systems (para 29 refers).
 - The external audit fraud risk return completed by management (para 30 below refers).
 - The annual audit letter from the external auditor for 2020/21 which did not identify any material governance, risk or control matters.
28. The MKS Fraud and Compliance team has advised that their work during 2021/22 did not identify any diminution in the overall control environment for the Council's systems, in terms of the existence of internal controls, including segregation of duties and that no significant internal controls failures which have led to fraud losses were identified.
29. Assurance on the cyber security arrangements has been obtained from the Public Services Network Code of Connection Internal Security Report which were carried out in 2021/22 by an independent external organisation. This technical review which focussed on network vulnerabilities did not highlight any material matters relating to the ICT internal control environment.
30. The external audit return for 2021/22 ('Informing the audit risk assessment for Swale Borough Council 2021/22') compiled by the Council's finance team was reviewed and this did not identify any diminution in the overall control environment for the Council's systems, in terms of the existence of internal controls, including segregation of duties and that no significant internal controls failures which have led to fraud losses had been identified.

MKA

31. Information on Mid Kent Audit which supports the delivery of the internal audit and other work carried out in the financial year is summarised in Annex E. Overall, despite the significant staffing changes during the year Mid Kent Audit has maintained a PSIAS compliant service and there has been no diminution in the robustness of the work performed.

Acknowledgements

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32. Managers, Officers and Members are thanked for their continued support throughout the year which has assisted in the efficient delivery of the audit work.

Other sources of assurance for 2021/22

The corporate governance, risk and control framework

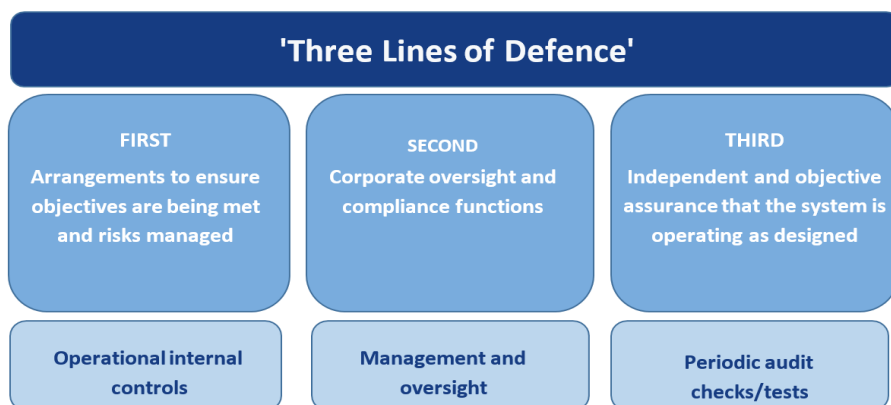
The corporate governance, risk and control framework for the Council is dynamic and there will be changes to the processes throughout the year. The key consideration for arriving at the annual Head of Audit Opinion is the materiality of any changes in terms of possibly increasing the exposure of the Council to activities and decisions which do not conform with the approved strategies and policies.

Obtaining additional sources of assurance

Due to the impact of the COVID Pandemic CIPFA has provided guidance on utilising other forms of assurance to support arriving at a Head of Audit Opinion. This means that where the agreed internal audit plan of work has not been fully carried out additional assurances can be obtained from 'other assurance providers' (this being the CIPFA terminology).

Three lines of defence

The three lines of defence model, below, explains how the level of assurance that can be taken by the Head of Audit reduces if the source of assurance is from the second line of defence and reduces even further if it is from the third line of defence.



As a consequence the additional assurance utilised to assist in supporting the 2021/22 Head of Audit Opinion has only relied upon second line of defence sources of assurance (i.e. where the author is not directly involved in the day-to-day operation of the corporate governance, risk and control arrangements they are reporting upon).

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Reduction in reliance due to passage of time

Due to the dynamic nature of the corporate governance, risk and control framework for the Council the reliance which can be placed on forms of assurance reduces as time passes. This has particularly been the case over the last two financial years with all the short-notice changes that were made to respond to the business disruption due to the COVID 19 pandemic.

As a consequence the additional assurance placed on work carried out prior to the start of 2021/22 has been kept to a minimum.

Assurance & Priority level definitions

Assurance Ratings 2021/22 (Unchanged from 2014/15)

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

Finding Gradings 2021/22 (Unchanged from 2014/15)

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

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

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic

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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.

Summary of Audit Findings

CCTV & Monitoring

Sound

Our testing resulted in largely positive results; we found the Council's CCTV arrangements are underpinned by suitable policies and procedures which are available to staff and align with best practice (ICO Code of practice for surveillance cameras and personal information). We found controls to be correctly operated in practice.

Overall, the result of the audit should be viewed as a good outcome for the service particularly reflecting the relatively short period of time since operations have been delivered directly by the Council. The commitment of the Control Centre Manager to get to this stage is noted along with their enthusiasm to embed procedures and further develop the service.

Planning Performance Agreements

N/A (System not mature enough to provide an opinion)

The use of Planning Performance Agreements (PPAs) as a planning management tool at the Council was first used in 2017, and only four PPAs have been completed since. As such, we consider that the system is not mature enough for us to conduct the testing necessary to provide an assurance rating. However, we have reviewed and considered the design and effectiveness of the controls in place.

The option to have a PPA is not promoted by the Council, and agreements are largely made at the request of applicants. Our testing found some processes in place for agreeing resources and costs, but these are not documented. At the current level of demand these controls are sufficient, but should the Council decide to expand delivery of PPAs these controls will need to be enhanced.

Our testing found no process or associated control framework to ensure PPAs remain cost neutral. The Council should ensure that such a process exists for all future PPAs.

Building Control

Sound

We found experienced and professionally affiliated officers undertake the Council's Building Control work. The Partnership completes actions in line with their delivery plan and there is adequate oversight by the Joint Committee and the Officer Steering Group, which is regularly attended by Council (SBC) Officers and Members.

However, the Memorandum of Understanding (MOU) contains out of date information regarding auditing of accounts, which are no longer externally audited. Officers should review/refresh the MOU to ensure it still meets SBC needs. SBC should also annually forward the accounts to their Finance and Legal teams for review.

SBC should further ensure there's adequate insurance cover as they're currently not named on the insurance certificates despite the MOU stating the Partnership will take out cover in the joint names of the partner Councils.

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Safeguarding

Sound

The Council has a small but dedicated and experienced team who log, monitor and refer safeguarding concerns to relevant agencies. The pandemic saw an increase in safeguarding concerns being identified, and this increase in cases has maintained at a higher level than since before the pandemic. We found there are sound processes in place to ensure safeguarding concerns are identified, raised and dealt with timeously.

However, our testing found some areas requiring improvement. The safeguarding training completion rates throughout the council is poor, especially at a senior level, but we are satisfied that the key Safeguarding Officers have undertaken the relevant training. Additional controls are also in place to monitor the number of concerns raised by services in the council, which is an indicator for a potential decline in officer awareness of safeguarding issues.

Complaint Handling

Sound

We found the Council's Complaint arrangements are supported by a suitable and up to date policy, with arrangements clearly set out on its website. The complaints process is supported by guidance and procedure documents for staff assessable on the intranet.

Our testing resulted in largely positive results; all complaints received had been correctly allocated to Complaint Administrators, information to monitor complaint response times was verified and we note favourable performance which exceeds the target response time and comprehensive reporting is made to the Senior Leadership Team.

We have raised some low priority findings aimed predominately at strengthening and tightening what we have found to be well designed arrangements. Our findings include linking the Council's Privacy Notice to its Complaints Policy to underline a commitment to the safe handling of information received and processed as a complaint, and issuing a reminder to Complaint Administrators covering attachment of complaint responses on the corporate system (MCS) and standardised wording to complaint response correspondence.

Planning Administration

Sound

We found the Council's Planning Administration Validation controls are well designed and operating effectively.

We conducted a wide range of tests which returned largely positive results.

We noted during fieldwork, the Services internal data reporting arrangements required attention to become more business resilient where knowledge has dissipated due to officer secondment. However, the Service rectified this between the draft and final reporting audit stage, and as such it is no longer an issue.

While we identified no uncontrolled risks and can report that the Service have addressed the one finding identified we were also made aware that the service is having trouble attracting suitable candidates into vacant positions, which is affecting internally set deadlines. For this reason, and the relatively narrow scope of the audit, we are issuing the audit with sound assurance rather than strong.

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Annex D

Reconciliation to the approved 2021/22 Internal Audit Plan

The Position column provides the position as at 31 May 2022 and with the exception of the shaded reviews, does not warrant that this will be the final position for any of these reviews. The shaded rows, below, are the reviews which informed the 2021/22 Head of Audit Opinion statement.

As part of Project Clean Sweep it was acknowledged that there can be a time-lag between issue and the draft and then finalisation of an audit report. The 'Agreed Draft' status signifies that management has accepted the assurance grading provided for the review and is substantially in agreement with the detailed findings. The management responses to the Actions have not yet been provided. Consequently, for the purposes of providing the Head of Audit Opinion audit reviews which have reached Agreed Draft have been included.

Audit Review	Priority	Position at 31 May 2022
CCTV & Monitoring	1	Finalised
Environmental Enforcement	1	Work in progress
Health & Wellbeing Strategy	1	Cancelled by service
Leisure Services	1	Deferred
Residents' Parking (X-Cut)	1	Agreed Draft
IT Development (X-Cut)	1	Work in progress
Phishing Response (X-Cut)	1	Deferred
Planning Performance Agreements	1	Finalised
Rainbow Homes - Company Governance	1	Cancelled by service
Business Rates	2	Agreed Draft
Building Control	2	Finalised
Safeguarding	2	Finalised
Complaint Handling	2	Finalised
Apprenticeships (X-Cut)	2	Agreed Draft
Planning Administration (X-Cut)	2	Finalised
(no topic agreed)	2	Dropped
(no topic agreed)	2	Dropped

(X-cut) signifies that the review was carried out over two or more of the Councils to which Mid Kent Audit provides the internal audit service.

About Mid Kent Audit

Standards and ethical compliance

- A. Government sets out the professional standards that Mid Kent Audit must work to in the Public Sector Internal Audit Standards (the “PSIAS”). These Standards are a strengthened version of the Institute of Internal Audit’s global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
- B. The Standards include a specific demand for reporting to Senior Management and the Audit Committee on Mid Kent Audit’s conformance with the Standards.

Conformance with the PSIAS

- C. CIPFA carried out a comprehensive External Quality Assessment (EQA) in May 2020 which confirmed that MKA was in full conformance with the PSIAS and the CIPFA Local Government Application Note (LGAN). The PSIAS requires an EQA to be carried out at least once every five years, but does not stipulate specific time intervals for Internal Quality Self-Assessments (ISA) in the intervening period.
- D. In February 2021 the interim Head of Audit for Mid Kent Audit carried out an ISA of conformance with the PSIAS. This review confirmed conformance with the PSIAS and raised 13 advisory or low priority action points. It has been agreed by the Mid Kent Audit management board that these action points will be progressed by the substantive Head of Audit, once this person is in post.
- E. The scope of this ISA did not include consideration of either the risk management or counter fraud work carried out by MKA. The scope did not include consideration of the resourcing of MKA, the audit risk prioritisation process or the appropriateness of the times allocated to the different stages of individual audit assignments.

Project Clean Sweep

- F. Project Clean Sweep was a pragmatic strategy put in place by Mid Kent Audit to deliver as much as possible of the 2021/22 planned work outstanding and ensuring there were no delivery ‘surprises’ at the time the Opinion statement for 2021/22 was presented to the Audit Committee.
- G. There were two key objectives for Project Clean Sweep. These were:
 - To enable the interim Head of Audit to provide the Head of Audit opinion for 2021/22 in a timely manner; and

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- To ensure there is no a knock-on effect on the delivery of the 2022/23 Audit Plan and thereby meaning the incoming substantive Head of Audit is arriving to an internal audit service which is on track to deliver the 2022/23 audit plan, rather than still focussed on 2021/22.
- H. Project Clean Sweep included nine actions which were taken to assist in achieving a 16th May 2022 deadline, which was subsequently extended to 31 May 2022. The key consideration was that all the Mid Kent Audit team were clearly sighted on the fact that achieving a deadline was not to be through any impairment of either audit quality or thoroughness.
- I. All of the Mid Kent Audit team who were in post during February to May 2022 rose to the challenge of delivering Project Clean Sweep and their effort and commitment needs to be recognised. The success in delivering Project Clean Sweep demonstrates the high calibre, can do ethos which confirms that the confidence the Council has with the Mid Kent Audit is not misplaced.

Resources

- J. 2021/22 was a year of unprecedented staff change within Mid Kent Audit. Details of a number of these changes have been previously been reported to the Audit Committee in the reports submitted by Mid Kent Audit. By the end of the financial year all the management positions at Mid Kent Audit were filled by interims. The use of interims demonstrates that Mid Kent Audit has made good endeavours to minimise the impact of staff turnover during a period when the market for internal audit personnel has been the most difficult for over three decades. The staffing position is likely to remain an issue for 2022/23.

Use of an external provider to assist with audit reviews

- K. In December 2021 following a procurement process BDO was appointed to carry out a number of the audit reviews for which Mid Kent Audit did not have the available resources in-house. This reflects that Mid Kent Audit has ensured the difficulties with staffing experienced during the year have been partially mitigated.