



AGENDA

AUDIT COMMITTEE MEETING

Date: Tuesday, 15 November 2022

Time: 7.00 pm

Venue: The Sapling Room, The Appleyard, Avenue of Remembrance, Sittingbourne, Kent, ME10 4DE*

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

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2. Apologies for Absence
3. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves, their families or friends.

The Chair will ask Members if they have any disclosable pecuniary interests (DPIs) or disclosable non-pecuniary interests (DNPis) to declare in respect of items on the agenda. Members with a DPI in an item must leave the room for that item and may not participate in the debate or vote.

Aside from disclosable interests, where a fair-minded and informed observer would think there was a real possibility that a Member might be biased or predetermined on an item, the Member should declare this and leave the room while that item is considered.

Members who are in any doubt about interests, bias or predetermination should contact the monitoring officer for advice prior to the meeting.

4. Minutes

To approve the [Minutes](#) of the meeting held on 25 July 2022 (Minute Nos. 209 – 218) as a correct record.

Part B reports for decision by the Audit Committee

5. Statement of Accounts and Audit findings

Reports added Tuesday, 8 November 2022

- 6. Half year Treasury Management Report 5 - 18
- 7. Interim Audit and Assurance Report 19 - 30

Issued on Monday, 7 November 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 Committee, please visit www.swale.gov.uk

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

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Audit Committee Meeting	
Meeting Date	15 November 2022
Report Title	Treasury Management Half Year Report 2022/23
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Duncan Ellis, Head of Finance and Procurement (interim)
Lead Officer	Duncan Ellis, Head of Finance and Procurement (interim) & Olga Cole, Management Accountant
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. To note the performance information in this report. 2. To note the prudential and treasury management indicators within the report.

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year position on treasury management transactions for 2022/23, including compliance with treasury limits and Prudential and Treasury Performance Indicators. This report will be going to Council on 7 December 2022.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.
- 1.3 The Council's Treasury Management Strategy for 2022/23 was approved at a meeting on 23 February 2022. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's Treasury Management Strategy.
- 1.4 In conclusion the Council can confirm that it has complied with its Prudential Indicators for 2022/23 which were set in February 2022 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.

2 Background

Market Environment

- 2.1 Economic background: The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth

Treasury Management Half Year Report 2022-23

remains weak. The UK political situation towards the end of the period following the 'fiscal event' increased uncertainty further.

- 2.2 The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.
- 2.3 UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.
- 2.4 The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.
- 2.5 Arlingclose's Economic Outlook for the remainder of 2022/23 (based on 26th September 2022 interest rate forecast).

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	2.25	4.25	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.75	4.25	3.75	3.25
Downside risk	0.00	-1.00	-1.00	-0.75	-0.50	-0.50	-0.50	-0.75	-1.25	-1.50	-1.75	-1.75	-1.75

Arlingclose expects Bank Rate to rise further during 2022/23 to reach 5% by the end of the year.

Borrowing

- 2.6 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority
- 2.7 On 1 April 2022, the Council had two loans from other local authorities, totalling £10m. During the first half of the financial year the Council has not repaid or taken out any additional loans. On 30 September 2022, the Council's external borrowing stood at £10m and further details can be found within appendix I below.

Treasury Management Half Year Report 2022-23

Investments

- 2.8 The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. These counterparties were agreed by Cabinet and Council earlier this year when the 2022/23 Treasury Strategy was approved.

Counterparty	Time Limit	Cash Limits
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

* Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

**These funds have no defined maturity dates but are available for withdrawal after a notice period.

- 2.9 The Council holds significant investment funds, representing income received in advance of expenditure plus balance and reserves held. During the six months to 30 September 2022 the Council held average daily cash balance of £28.2m (£33.8m September 2021).
- 2.10 The Council's budgeted investment income for the six months to 30 September 2022 was £83k (£84k September 2021) and the actual income received was £174 (£79k September 2021), of which £58k (£56k September 2021) was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

Treasury Management Half Year Report 2022-23

- 2.11 The results for the six months to 30 September 2022 show that the Council achieved 0.23% (0.48% September 2021) average return below the average Sterling Overnight Index Average (SONIA) and 0.29% average return rate below the average Bank of England Base Rate.
- 2.12 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 3.84%, comprising of a £58k (3.72%, £56k September 2021) income return. Since this fund has no defined maturity date but is available for withdrawal after a notice period (due to the current uncertain market conditions this period was extended in October from 3 to 6 months), its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Considering its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

- 2.13 The Council can confirm that it has complied with its Prudential Indicators for 2022/23 which were set in February 2022 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with Members. The indicators are based on approved commitments and the current budget.
- 2.14 Prudential and Treasury Management Indicators are set out in Appendix II.

3 Proposals

- 3.1 No changes are proposed at this stage.

4 Alternative Options Considered and Rejected

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

5 Consultation Undertaken or Proposed

- 5.1 Consultation has been undertaken with the Council's retained treasury management consultants Arlingclose.

6 Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.

Treasury Management Half Year Report 2022-23

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	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Climate/Ecological Emergency	The Council does not own any shares or corporate bonds so there are no ethical investment considerations to be met.
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	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report.
Privacy and Data Protection	Not relevant to this report.

7 Appendices

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

- Appendix I: Investments and Borrowing as at 30 September 2022
- Appendix II: Prudential and Treasury Management Indicators

8 Background Papers

8.1 None.

Investments and Borrowings as at 30 September 2022

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2022 £'000
<u>Fixed Term Deposits</u>		
Debt Management Office	AA-	3,000
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAmmf	3,000
Deutsche Money Market Fund	AAmmf	1,670
Goldman Sachs Money Market Fund	AAmmf	3,000
Aberdeen Money Market Fund	AAmmf	3,000
Black Rock Money Market Fund	AAmmf	3,000
JP Morgan Money Market Fund	AAmmf	2,890
Morgan Stanley Money Market Fund	AAmmf	3,000
SSGA Money Market Fund	AAmmf	3,000
CCLA Property Fund		3,000
Total Fixed Term Deposits, Money Market and Property Funds		28,560
TOTAL INVESTMENTS	Maturity Date	£'000
West Midlands Combined Authority	06/04/2023	-5,000
London Borough of Islington	27/02/2023	-5,000
TOTAL BORROWING		-10,000

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

AAmmf: Fund has very strong ability to meet the dual objective of providing liquidity and preserving capital.

AA-: High quality, low default risk.

Investment Activity in 2022/23

Investments	Balance on 01/04/2022	Investments Made	Investments Repaid	Balance on 30/09/2022	Average Rate
	£'000	£'000	£'000	£'000	%
Short Term Investments and Cash and Cash Equivalents	23,335	107,650	(105,425)	25,560	0.99
Long Term Investments	3,000	0	0	3,000	3.84
TOTAL INVESTMENTS	26,335	107,650	(105,425)	28,560	

Borrowing Activity in 2022/23

Borrowing	Balance on 01/04/2022	Borrowing Made	Borrowing Repaid	Balance on 30/09/2022	Average Rate
	£'000	£'000	£'000	£'000	%
External Borrowing	10,000	0	0	10,000	0.73
Total Borrowing	10,000	0	0	10,000	

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and/or for commercial purposes (made primarily for financial return).

The Council holds £4.03m (£3.599m September 2021) of a long-standing portfolio of 13 investment properties within the borough. These investments are expected to generate £0.2m (£0.2m September 2021) of investment income for the Council after taking account of direct costs, representing a rate of return of 5.2% (4.5% September 2021).

1. Background

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

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

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

Capital Financing Requirement	2021/22 Actual	2022/23 Revised Estimate	2023/24 Estimate	2024/25 Estimate
	£’000	£’000	£’000	£’000
Capital Financing Requirements	47,774	48,999	59,627	65,768
External Borrowing	(10,000)	(13,000)	(24,700)	(32,700)
Cumulative External Borrowing Requirements	37,774	35,999	34,927	33,068

External Borrowing: as at 30 September 2022 the Council had £10 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

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

Capital Expenditure and Financing	2021/22 Actual	2022/23 Revised Estimate	2023/24 Original Estimate	2024/25 Original Estimate
	£'000	£'000	£'000	£'000
Total Expenditure	6,083	12,995	21,704	23,111
Revenue contributions	29	2,800	50	509
Capital receipts	201	74	380	0
Grants and other contributions	4,829	7,031	9,574	14,602
Internal/ External borrowing	1,024	3,090	11,700	8,000
Total Financing	6,083	12,995	21,704	23,111

4. Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Financing Costs to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	%	%	%	%
Total	4.83	6.81	8.77	15.13

5. Actual External Debt

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

Actual External Debt as at 30/09/2022	£'000
Borrowing	10,000
Other Long-term Liabilities	0
Total	10,000

6. Authorised Limit and Operational Boundary for External Debt

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

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

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

Authorised Limit for External Debt	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	70,000	70,000	70,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	72,000	72,000	72,000

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

Operational Boundary	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	500	500	500
Total Debt	55,500	55,500	55,500

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The Head of Finance and Procurement confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2022.

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	Actual level at 30/09/22	2022/23 Approved Limit	Complied?
Interest on fixed rate borrowing	100%	100%	✓
Interest on fixed rate investments	-10%	-100%	✓
Interest on variable rate borrowing	0%	100%	✓
Interest on variable rate investments	-90%	-100%	✓

8. Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were.

Maturity structure of borrowing	Existing level at 30/09/22 %	Lower Limit for 2022/23 %	Upper Limit for 2022/23 %	Complied
Under 12 months	100	0	100	✓
12 months and within 24 months	0	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions. Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

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

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

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

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

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

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

Total Principal Sums Invested Over 364 Days	2022/23 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

11. Investment Benchmarking for the six months to 30 September 2022

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average Overnight SONIA Rate
0.99%	0.30%	1.28%	1.22%

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Audit Committee Meeting	
Meeting Date	15 November 2022
Report Title	Interim Internal Audit & Assurance Report 2022/23
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	1. That work completed so far on the 2022/23 Audit & Assurance Plan be noted.

1 Purpose of Report and Executive Summary

- 1.1 This report is for information and summarises progress towards delivering the plan up to 31 October 2022. In addition, it also provides updates on:
- Completed 2021/22 audits which will be used to inform the 2022/23 Audit Opinion.
 - Resource changes with the Mid Kent Audit Partnership team.
 - Other work and overall progress, including planned vs actual days.
 - The results of the follow up of agreed management actions.

2 Background

- 2.1 The Audit Committee approved the 2022/23 audit plan in March 2022. This report provides information to Members on the work completed by internal audit since the last report in June 2022.
- 2.2 The new Head of Audit Partnership will update Senior Management and Members once she starts in December as to whether the service holds sufficient resource to accumulate enough evidence to support a year end opinion.

3 Proposals

- 3.1 We present the report to Members for their information and for noting.

4 Alternative Options Considered and Rejected

- 4.1 We present the report to Members for their information and for noting.

5 Consultation Undertaken or Proposed

- 5.1 We present the report for Member information and for noting. There has been no formal consultation, but its content has been discussed with the Director of Resources and Executive Management Team.

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 internal audit does on behalf of Swale Borough Council, is 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 relevant data protection policies.

7 Appendices

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

Appendix I: Interim Internal Audit & Assurance Report.

8 Background Papers

Full reports which support the audit engagements summarised in this report are available on request. In addition, previous Audit Committee reports can be found [here](#).

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MID KENT AUDIT

Interim Internal Audit & Assurance Report

November 2022

Swale Borough Council



MID KENT AUDIT

Introduction

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

Audit Charter

3. This Committee approved our Audit Charter in September 2020 and it remains in place through the audit year. A revised Audit Charter will be presented to the Audit Committee once the new Head of Audit Partnership is in place.

Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Swale Borough Council (SBC) during 2022, we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

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

MID KENT AUDIT

Resource Need

9. We reported in our plan presented to this Committee in March 2022 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

MKA has the skills and expertise to deliver the 2022/23 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2022/23 to be delivered in Spring 2023.

10. Since March 2022 we have experienced further change within the audit team:

- One of our apprentices left for a more senior role elsewhere. While we're always pleased to support development, their loss has left a notable gap in the team that we have not yet recruited to.
- The Interim Audit Manager Julie Hetherington is due to leave at the end of November 2022, and the Interim Audit Manager Andy Billingham is due to leave the end of January 2023.
- The Deputy Head of Audit post has been deleted, and
- The new Head of Audit Partnership (Katherine Woodward) will start on 5 December 2022.

11. The result is the team currently has two vacancies and will shortly have another. The new Head of Audit Partnership will decide on a new structure once in post.

12. To fill the staffing gap, we prepared a market tender to seek contractor support in completing the 2022/23 audit and assurance plans. This contract was recently awarded for work to take place from November to April.

13. Despite all this change we continue to make progress through the Audit Plan although overall delivery of the plan has been impacted.

Audit Plan Progress: Closing 2021/22

14. In July, there was one audit engagement (Environmental Enforcement) that was not completed in time to be included for the 2021/22 annual audit opinion. See Appendix I for our summary findings for this engagement. The results of this audit will now feed into the Head of Audit Partnership annual assurance opinion for 2022/23

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Audit Plan Progress: Beginning 2022/23

15. The chart below shows current and expected progress through the engagements described in the 2021/22 Audit Plan:

Key

	Audit Under way
	Audit Allocated

Audit	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
IT Project Management *											
Website & accessibility											
Committee Management											
Workforce Planning*											
Temporary Accommodation											
Facilities Management											
Project Management - Swale House Refurb											
Private Water Supply *											
Accounts Receivable											
Accounts Payable											
Elections Management											
Asset Inspection											
Maintenance of Open Spaces											
Waste Contract Tendering *											
Food Safety *											

* shared service audit, work will include all authorities included in the shared service

16. Below are the remaining audits currently unallocated due to resource constraints – these will be reviewed by the new Head of Audit once they are in post.

Audits not yet allocated
Private Sector Housing
IT Backup & Recovery – x cutting
Network Security x cutting
Licensing Enforcement
BACS Project
Private Sector Housing
Rainbow Homes

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Other work and overall progress

Risk

17. Our work on overseeing, updating, and reporting on risk has continued during the year in line with the Risk Management Framework. As well as the routine cycle of work we have put in place a risk management software package called JCAD. Implementation of this software is allowing us to further settle and develop risk management across the Council. Audit, Governance & Standards Committee will receive a detailed report on the risk management framework in March 2022.

Grant Certification work

18. We conducted the Covid 19 Test & Trace Support Payment Certification, and found no issues.

Planned vs Actual Days

19. The table below summarises (up to 31-October) current days on audit plan progress versus the actuals to date.

Plan Area	Planned Days	Actual to 31Oct-22	Year End Prediction *
Risk Based Audits	270	46	180
Follow -up of agreed actions	20	11	20
Consultancy & Member support	50	8	30
Risk Management Support	50	24	50
Planning	20	2	20
Counter Fraud & Governance Support	20	10	20
Total	430	101	320

* as stated above the new Head of Audit will review overall delivery of the plan and take a view as to whether additional work is needed to form an opinion.

20. We will keep the plans under review to maximise delivery of high-risk audit work. Once the new Head of Audit is in post they will review progress and anticipated overall delivery of the audit plans.

MID KENT AUDIT

Agreed Actions Follow Up Results

21. Our approach to agreed actions is that we follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions). In total, we summarise in the table below the current position on following up agreed actions:

Swale and Cross Cutting	Total	High Priority	Medium Priority	Low Priority
Open actions before 01/05/22	19	4	13	2
New actions agreed from 01/05/22	13	0	6	7
Total open action	32	4	19	9
Closed Actions since 01/05/22	17	0	9	8
Current Open Actions as at 17/10/22	15	4	10	1

Code of Ethics

22. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. The Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life's [Seven Principles of Public Life](#) (the "Nolan Principles").

23. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.

24. We can report to Members we remain in conformance with the Code.

MID KENT AUDIT

Acknowledgements

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

MID KENT AUDIT

Appendix I

Environmental Enforcement (October 2022)

28. Our opinion based on our audit work is Environmental Enforcement has SOUND controls in place to manage its risks and support achievement of its objectives.

Finding Summary: 3 x Medium priority.

The findings were:

- Cases were not always closed where applicable, some cases were unallocated, or had no action recorded against them.
- The spreadsheet to track Fixed Penalty Notice had data held on from 2006, and data was not always standardised, making it harder to filter or analysis the information.
- Timeframes for prosecution was not processed in good time, and cases were closed down as would seem unreasonable to pursue. In addition, recording of location of evidence was not always noted in the case management system.