

Agenda

Audit Committee Meeting

Date: Monday, 24 July 2023

Time 7.00 pm

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

Membership:

Councillors Andy Booth, Derek Carnell (Vice-Chair), Simon Clark (Chair), Angela Harrison, Mike Henderson, Rich Lehmann, Tara Noe, Richard Palmer and Dolley Wooster.

Quorum = 3

Pages

Information about this meeting

*Members of the press and public can listen to this meeting live. Details of how to join the meeting will be added to the website on 21 July 2023.

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- (b) Exit routes from the chamber are located on each side of the room, one directly to a fire escape, the other to the stairs opposite the lifts.
- (c) In the event of the alarm sounding, leave the building via the nearest safe exit and gather at the assembly point on the far side of the car park. Do not leave the assembly point or re-enter the building until advised to do so. Do not use the lifts.
- (d) Anyone unable to use the stairs should make themselves known during this agenda item.

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 17 April 2023 (Minute Nos. 824 – 829) and the [Minutes](#) of the meeting held on 17 May 2023 (Minute Nos. 31 – 32) as correct records.

Part B Report for Decision by the Audit Committee

- | | | |
|----|------------------------------|---------|
| 5. | Audit Progress Report | 5 - 22 |
| 6. | Treasury Management Strategy | 23 - 36 |

Issued on Friday, 14 July 2023

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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Swale Borough Council Audit Progress Report and Sector Update

Year Ended 31 March 2023

24 July 2023
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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 Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

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

Progress at March 2023

Financial Statements Audit

We have completed our work on your financial statements for 21-22 in November 2022.

We undertook our initial planning for the 2022/23 audit in March 2023. We expect to begin our work on your draft financial statements in August 2023.

We issued a detailed audit plan in April 2023, setting out our proposed approach to the audit of the Authority's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by October 2023.

Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

The National Audit Office (NAO) have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report in line with the statutory deadline.

Progress at March 2023 (cont.)

Other areas

Meetings

We met with Finance Officers in May 2023 as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective

Events

We provide a range of workshops, along with network events for members and publications to support the Authority.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (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.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Director of Resources including any proposed variations to the Scale Fee set by PSAA Limited, and will continue to communicate this fully with the Audit Committee.

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

Audit Deliverables

2022/23 Deliverables

	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report</p>	April 2023	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the November Audit Committee.</p>	October 2023	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	October 2023	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	TBC	Not yet due

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2022/23 Audit related Deliverables

	Planned date	Status
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	TBC	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20

Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report](#)

About time?

Exploring the reasons for delayed publication of audited local authority accounts

March 2023



Local government procurement and contract management

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector¹. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management

[full report here](#)

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

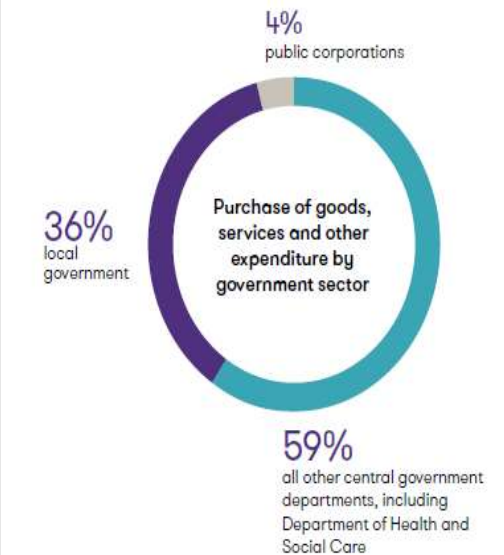
UK public spending

Public spending on goods and services, £ billions - analysis by segment and department²



PCs Other Public Corporations AC Academies
 DfT Department for Transport MoJ Ministry of Justice
 WG Welsh Government BBC British Broadcasting Corporation
 HO Home Office
 DfE Department of Education BEIS Department of Business, Industry Strategy
 SG Scottish Government

Goods, services and other expenditure by segment⁴



¹ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
² Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021
³ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
⁴ HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

Stonewall Gold Employer: GT's LGBTQIA+ inclusion journey

Background

15 Feb 2023, Stonewall, Europe's largest charity for Lesbian, Gay, Bi, Trans, and Queer (LGBTQIA+) rights, launched its widely anticipated Top 100 Employers List – recognising us for our work in supporting LGBTQIA+ colleagues to be the best versions of themselves at work and awarding us Gold Employer, the highest award.

We're proud to announce that we've ranked among the UK's leading employers from the public, private, and third sectors in the Stonewall Workplace Equality Index (WEI). We've also been recognised as a Gold Employer. Overall, we've ranked 38th in the latest WEI results, and 26th in the private sector, and 9th in the financial services sector.

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

“Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared.

This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole.

CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change”.

[Click here for link to the article](#)

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

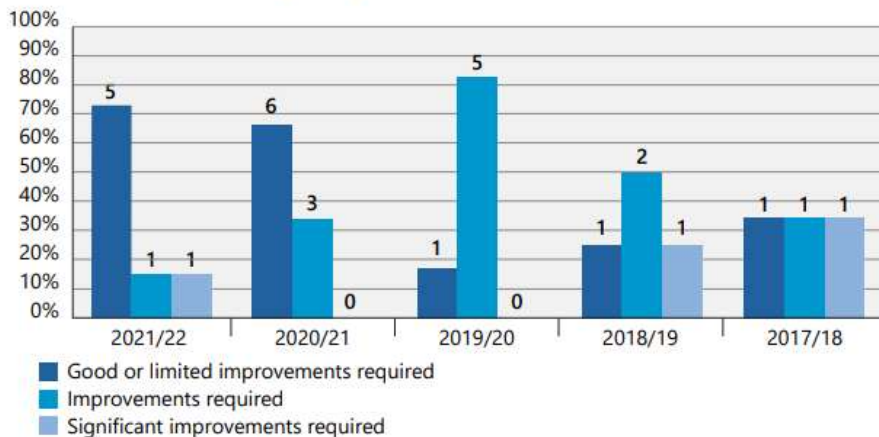
The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

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Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating “This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee’s development.”

CIPFA go on to state “Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA’s 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

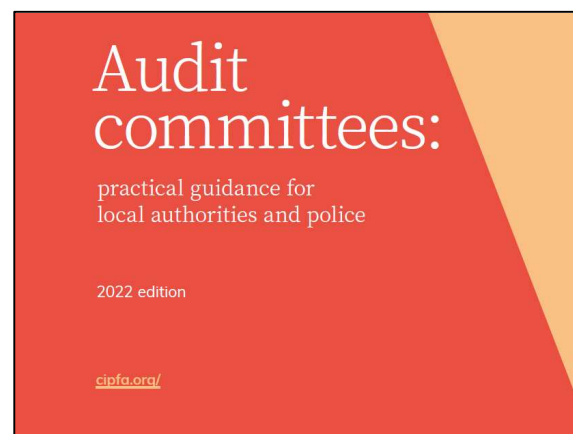
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools.”

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
 - Governance, Risk and Control
 - Accountability and Public Reporting
 - Assurance and Audit arrangements
 - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA](#)





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Audit Committee		Agenda Item:
Meeting Date	24 July 2023	
Report Title	Annual Treasury Management Report 2022/23	
EMT Lead	Lisa Fillery, Director of Resources	
Head of Service	Claire Stanbury, Head of Finance and Procurement	
Lead Officers	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant	
Classification	Open	

Recommendations	1. To note the Treasury Management outturn report for 2022/23.
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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 2022.
- 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 2022/23 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 2022/23; and
 - confirms compliance with Treasury limits and Prudential Indicators.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2022 £'000	Movement in Year £'000	Balance on 31/3/2023 £'000
Capital Financing Requirement	47,774	632	48,406
External Borrowing	(10,000)	0	(10,000)
Cumulative External Borrowing Requirement	37,774	632	38,406

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 accounted for as a charge to the General Fund.

2.3 The reason for the increase in the CFR in 2022/23 is due to the increase in the unfunded capital spend.

2.4 As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.5 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after the 'mini-budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

2.6 The table below summarises the Council's borrowing portfolio from other local authorities at 31 March 2023.

Local Authority	Loan Value £'000	Borrowing Rate	Duration of the Loan	Borrowing Date	Loan Repayment Date
West Midlands Combined Authority	5,000	1.05%	1 year	07/04/2022	06/04/2023
North Northamptonshire Council	5,000	4.30%	1 year	27/02/2023	26/02/2024

Investment Activity

2.7 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23, the Council held average daily cash balances of £30 million (£38 million for 2021/22) and our Money Market balances closed at £6.6 million at 31 March 2023.

2.8 The Council's budgeted investment income for 2022/23 was £166,000 and the actual income received was £704,000, of which £123,084 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.9 The table below summarises the Council's investment portfolio at 31 March 2023. 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 2023.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2023 £'000
Morgan Stanley MMF	AAAmmf	2,130
Black Rock MMF	AAAmmf	3,000
Deutsche MMF	AAAmmf	1,420
CCLA Property Fund	unrated	3,000
Total		9,550

2.10 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.

2.11 The treasury management position at 31st March 2023 and the changes during the year is summarised below:

Investments	Balance on 31/03/22	Movement in Year	Balance on 31/03/23	Average Rate at 31/03/23
	£'000	£'000	£'000	%
Cash and Cash Equivalents	15,735	(9,185)	6,550	1.88
Short-Term Investments	7,600	(7,600)	0	0
Long-Term Investments	3,000	0	3,000	4.10
TOTAL INVESTMENTS	26,335	(16,785)	9,550	
Borrowing				
Short-Term Borrowing	(10,000)	0	(10,000)	0.90
TOTAL BORROWING	(10,000)	0	(10,000)	

2.12 The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund. Accounting requirements dictate that financial instruments, which include this investment, are carried in the balance sheet at fair value. The fair value for this fund is based on the market price which as at 31 March 2023 was £2.863 million.

2.13 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 Debt Management Agency Deposit Facility (DMADF).

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

2.15 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.

2.16 The investments permissible by the 2022/23 Treasury Strategy were:

Counterparty	Cash Limits
The UK Government	Unlimited
Local Authorities and other government entities	£3m
Major UK banks / building societies 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, Multi Asset Funds	£3m each
CCLA Property Fund	£3m
Registered providers (unsecured)	£3m in aggregate
Secured Investments	£3m in aggregate
Other Investments	£3m in aggregate
Non treasury investments	To be agreed on a case by case basis

2.17 This Council 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 lower 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

2.18 The maximum permitted duration for unsecured deposits with major UK Banks and building societies is 13 months. For 2022/23 the Director of Resources in consultation with chair of Policy & Resources Committee could consider longer duration. Bonds could have been purchased with a maximum duration of five years.

2.19 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 2023 the Council held £4.173 million of a longstanding portfolio of 12 investment properties within the borough. These investments generated £0.2 million of investment income for the Council in 2022/23 after taking account of direct costs, representing a rate of return of 5.8%.

External Context

2.20 The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession, which at the date of drafting has not yet occurred. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

- 2.21 The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report.
- 2.22 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.
- 2.23 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period.

Credit Review

- 2.24 Early in the period, Moody's affirmed the long-term rating of Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.
- 2.25 In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive. In September S&P revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.
- 2.26 The following month Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander. As a result, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.
- 2.27 During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.
- 2.28 As market volatility is expected to remain a feature, at least in the near term, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.
- 2.29 Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its

counterparty list remains unchanged, a degree of caution is merited with certain authorities.

CIPFA Code and PWLB Lending Facility Guidance

- 2.30 Authorities that are purchasing or intending to purchase investment assets primarily for yield are not 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.
- 2.31 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.
- 2.32 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.
- 2.33 DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

Compliance

- 2.34 The Council has complied with its Prudential and Treasury Management Indicators for 2022/23 which were set as part of the Treasury Management Strategy agreed by Council in February 2022.
- 2.35 In Appendix I the outturn position for the year against each Prudential Indicator is set out.
- 2.36 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

- 2.37 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

- 2.38 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 2022/23, complying with CIPFA's requirement, was approved by Council on 23 February 2022.

3. Proposal

- 3.1 Members are asked to note 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 Our treasury advisors, 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

Issue	Implications
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 2022/23

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 2022/23. 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	2022/23 Actual £'000
Total Capital Expenditure	6,967
Source of Funding	
Capital grants and other contributions	3,338
Earmarked reserves	1,812
Borrowing	1,660
Capital receipts	28
Direct Revenue Funding	129
Total Financing	6,967

A report on the 2022/23 Capital outturn was presented to Policy and Resources Committee on 12 July 2023.

Treasury Management and Prudential Indicators for 2022/23

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

Capital Financing Requirement	31/03/23 Estimate £'000	31/03/23 Actual £'000	31/03/23 Difference £'000
Total CFR	72,150	48,406	(23,744)
External Borrowing	(50,000)	(10,000)	40,000
Cumulative External Borrowing Requirement	22,150	38,406	16,256

External borrowing: as at 31 March 2023 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 leases, and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31/03/23 Boundary £'000	31/03/23 Actual Debt £'000	Complied
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	31/03/23 Boundary £'000	31/03/23 Actual Debt £'000	Complied
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 2022/23

The Director of Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2022/23.

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	31/03/23 Estimate %	31/03/23 Actual %	Difference %
General Fund Total	6.83	1.88	4.95

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:

	31/03/23 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:

	2022/23 £'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 2022/23

Investment Benchmarking

Average Actual Return on Investments 2022/23	Original Estimate Return on Investments 2022/23	Average Bank Rate 2022/23	Average 7-day SONIA Rate 2022/23
1.88%	0.92%	2.39%	2.24%

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	24 July 2023
Report Title	Internal Audit Annual Report and Opinion 2022/23
EMT Lead	Lisa Fillery – Director of Resources
Head of Service	Katherine Woodward – Head of Audit Partnership
Lead Officer	Katherine Woodward – 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

- 1.1 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 2022/23.

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 Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2022/23. The Committee is asked to note this opinion.

3.2 The full Annual Report for 2022/23 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 Considered and Rejected

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 internal audit does on behalf of Swale Borough Council, is carried out within agreed resources.

Legal, Statutory and Procurement	The Council is required by Regulation to operate an 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: Internal Audit Annual Report and Opinion 2022/23

8 Background Papers

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

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**Internal Audit Report &
Annual Audit Opinion
2022/23**

Swale Borough Council

MID KENT AUDIT

Introduction

1. This is the 2022/23 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 2023.

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 2022/23 is:

The planned programme of work delivered by internal audit was constrained by significant staffing vacancies and 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.

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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 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 financial challenges and the difficult decisions that the Council had to deal with during 2022/23, 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 2022/23. These are not in any priority order and in a number of cases there is an inter-relationship between these considerations.
 - Remote working and greater use of digital forms of operation and communication has now been in place for two years following the rapid introduction during the pandemic. This change in ways of working is now becoming normalised and adaptations are being managed.

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- Diverting staff resources and changing priorities during the pandemic has had an impact in the subsequent years on service delivery. Recovery plans have been effective, but some areas have required a greater period of recovery than others.
- The significant increase in cyber-attacks against all organisations to obtain 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 2022/23 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 appointment of an interim Head of Audit and an interim Deputy Head of Audit for part of the year. There was also the departure of both Audit Managers towards the end of the year. The permanent Head of Audit Partnership started in December 2022 and no further recruitment was undertaken until very recently while an assessment of the current structure was completed. 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 2022/23 Audit & Assurance Plan on 9 March 2022. The selection, prioritising and scoping of the audit reviews in this Plan was overseen by the Head of the Audit Partnership.
13. There has been impairment in terms of the planned internal audit coverage for 2022/23. This has been due to the knock-on effect of the late completion of the 2021/22 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. As a consequence a number of the audit reviews set out in the 2022/23 Internal Audit Plan have not been completed in time to inform the 2022/23 Opinion Statement. This is a timing matter, rather than systematic of any issue in respect to the Council's governance, risk and



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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.

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 2022/23 Audit & Assurance Plan provided for 16 reviews to be carried out. One audit was added into the plan after it had been agreed.
15. For the reasons explained in paragraph 13, above, only 8 of these reviews were completed in time to inform the 2022/23 Opinion statement. Three reviews are currently underway. These reviews are shown in the table below. Of these reviews there were no reviews where the assurance rating 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	Assurance rating	Number of Actions by Priority Rating			
		Critical	High	Medium	Low
Accounts Payable	Strong				
Accounts Receivable	Sound			2	1
Workforce Planning	Sound			1	
Environmental Enforcement	Sound			3	
Website and Accessibility	Sound			5	3
Committee Management	Strong				1
IT Project Management	Strong				2
Food Safety	Sound			1	4

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16. A summary of the Assurance 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 2022/23 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 2022/23 is provided in Annex D.
19. Where appropriate, reliance has been placed upon previous internal audit work and other work performed by Mid Kent Audit, including:
 - The unqualified 2021/22 Head of Audit Opinion and the findings of previous years' internal audit work carried out (paras 20 below refers).
 - The outcomes of the follow up work carried out to confirm control weaknesses identified by internal audit have been effectively mitigated (paras 21 - 22 below refers).
 - The outcomes of other work performed by Mid Kent Audit for the Council (para 23 below refers).
20. **Previous years' internal audit work:** The unqualified opinion Internal Audit Report for 2021/22 advised that there were no audit reviews carried out by Mid Kent Audit during the financial year where there were assurance assessments of 'Weak' or 'Poor'.
21. **Following up Actions:** 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. Follow up work was paused towards the end of the year to focus on audit delivery due to resource constraints.
22. During 2022/23, 27 Actions were followed up and the table below summarises the extent to which the identified risk exposure have been mitigated. These 27 Actions include all those either made in 2021/22, or carried forward from a

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previous financial year. There were no Priority 1 (Critical) and 3 Priority 2 (High) Actions and as set out below.

Extent of control risk mitigation	Number of Actions by Priority Rating			
	Critical	High	Medium	Low
Opening Number	-	3	16	8
Current Status: Cleared		1	13	7
Not yet actioned		2	3	1

23. **Outcomes of other work carried out by Mid Kent Audit:** Work was carried out on the Section 31 Grant Determination 31/6499 Biodiversity Net Gain certification. The Head of the Audit Partnership reviewed the certification completed by the council on grant spend and provided a signed assurance confirming it was in line with the guidance.

Reliance on other sources of assurance

24. For the reasons set out earlier in the Report it has been necessary for 2022/23 to place some reliance upon a number of 'other assurance providers' and these are summarised below:
- Cyber Health Check undertaken by Zurich (para 25 refers)
 - Covid 19 Business Grant assurance schemes (para 26 refers)
25. Cyber Risk Consultants, Zurich Resilience Solutions conducted a Cybersecurity Health Check of the Mid Kent Shared IT Service: 'Public Services Network Code of Connections Internal Security Report and an External Security Report'. The Council was graded as 'Good' and the organisations cyber maturity is better than 80% of other council's in the UK which have been assessed. There were a number of recommendations made that have been incorporated into an action plan which is being reviewed by the IT team and Internal Audit.
26. Post payment assurance work following the completion of the Covid 19 business grant schemes has been signed off by the Department for Business, Energy and Industrial Strategy (BEIS) and checked and verified by the National Audit Office (NAO), concluding that "the evidence submitted by Maidstone Borough Council has followed an appropriate and robust process

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in completing the minimum assurance checks when awarding and paying a grant”.

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27. 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

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



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Annex A

Other Sources of assurance for 2022/23

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.

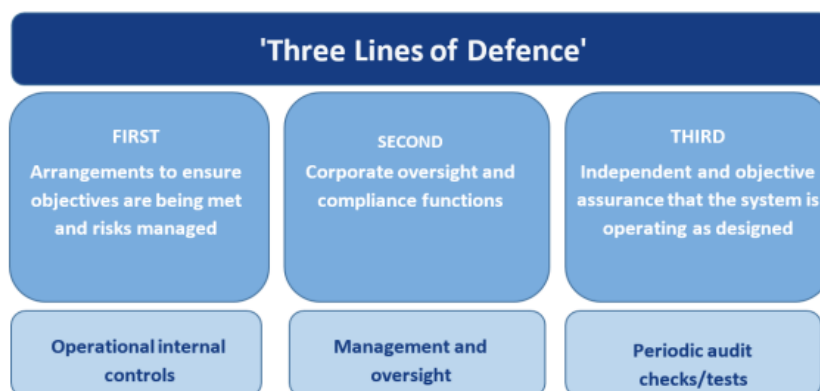
Obtaining additional sources of assurance

During the COVID Pandemic CIPFA 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 2022/23 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 2022/23 has been kept to a minimum.

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Annex B

Assurance and priority level definitions

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

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Finding, Recommendation and Action Ratings

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

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

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

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

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

Summary of Audit Findings

Workforce Planning (MKS)

Sound

We found that Workforce Strategies for both Councils (Swale and Maidstone) reflect strategic and corporate plans, and that their development and content reflect current best practice. This included effective liaison with officers to determine current and future workforce needs. That said, Maidstone Borough Council's workforce strategy needs updating, having covered the period 2016-20.

Actions defined within workforce strategies and those taken to support the workforce are based on sound information from a variety of sources. This includes provision of a comprehensive Learning & Development Plan aimed at supporting the workforce and cultivating talent so that future workforce needs can be met from within. We could see progress against defined actions, as well as reactive workforce planning taken in response to changes to the internal and external environment. This demonstrates that actions are not limited to those documented in long term strategies.

We note that while workforce strategies are approved at Committee level, reports around progress are not required at this level for either Council. Current oversight is achieved through quarterly reporting to, and regular liaison with senior management.

IT Project Management

Strong

Our audit looked at the project management governance and procedures that are in place for ICT Project Management. This included assessing the terms of reference and operation of the JCG as well as assessing how arising actions are tracked. As part of this, we assessed two of the meeting minutes from July 2022 and September 2022 and noted that the JCG is operating effectively with regards to tracking actions arising from ICT projects.

Proceeding with a project must go through both an acknowledgement and approval process. Acknowledgment of a project is done to demonstrate that the relevant request is a project and not an aspirational idea. This is done by having a set of achievable outcomes in addition to having a set series of tasks associated with the project. Approval of the project is done when the relevant delivery plan is in place within Wrike

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and is displayed through a Gantt chart detailing the necessary steps for the delivery of the project. While acknowledgement and approval was conducted for customer facing projects, this was not the case for infrastructure projects which go through a more streamlined process due to the type of work involved.

As part of our testing, we assessed a sample of five ICT projects to determine whether they were commissioned and monitored in line with expectations. This included assessing whether value for money was being achieved. During our testing we noted that these projects were commissioned and monitored in line with expectations and any cost implications of a project would be assessed during the initial stages through ensuring that it had the appropriate level of funding and financial backing from the project sponsor. Furthermore, infrastructure projects bring value through the work that is conducted, for instance the Outlook mailbox migration allows for a better end user experience.

Accounts Receivable

Sound

Our testing confirmed that appropriate controls are in place to ensure that invoices are raised promptly and all invoices in our sample tested had been allocated to the correct account.

Our testing found reminders were not always being issued in accordance with the timescales set out within the Corporate Debt Recovery Policy which we found requires updating. Informal payment plans were not always being effectively monitored and consequently payments were not being received.

We found credit notes were submitted correctly and had been appropriately authorised by officers with appropriate delegated authority. There was a separation of duties present between the raising and allocating of the credit note and all cases tested had been raised against the correct debtor.

A review of the suspense account showed that there were no items in the suspense account from the previous financial year and that there was one recurring item entering the account monthly. End of period reconciliations are conducted to agree invoices raised against the reports run on Agresso. A review of the reconciliations for periods three and six confirmed accuracy of the process.

Accounts Payable

Strong

Our testing confirmed controls ensuring that goods and services had been appropriately ordered and received, were working effectively for both Purchase



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Order (PO) and non-PO payments. Invoices were being paid in a timely manner and within 30 days. 'Holds' on payment were found to be resolved promptly with no issues identified from our review of the 16 invoices outstanding as at 31 March 2023.

We found credit notes were being processed in line with established procedures. From a sample of 5 tested, two were in respect of cancellations to the original (incorrect) invoice. Three credit notes were issued following officer checks which found the amount on the invoices and did not correspond to the expected (ordered) value. The credit note and invoice had then both been correctly processed in these cases.

Changes to supplier details were being carried out in line with an established procedure and our testing confirmed that appropriate checks and evidence was held and retained validating each change.

Reconciliations between the General Ledger and Accounts Payable systems take place monthly, which we confirmed in practice. One month's reconciliation was reviewed and agreed to supporting documentation from each system with no issues found.

The Head of Finance and Procurement, as the Head of Service, authorises payments which exceed £30,000 but are less than £300,000, with all payments exceeding £300,000 being authorised by the s151 Officer. The Head of Finance and Procurement authorised 39 invoices during the 2022-23 financial year. There is scope to review the appropriateness of this approval limit which we include as an advisory finding

Website and Accessibility

Sound

The scope of this audit focused on the Communications Team, who manage corporate areas of the Swale Borough Council (SBC) website and maintain overall responsibility for website content. Website and mobile app accessibility requirements state that Swale Borough Council (SBC) is legally responsible for ensuring all parts of the website are digitally accessible, even if parts of it are outsourced to a supplier. We found overall responsibility for the transparency code has not been assigned.

We found that the Communications Team were one of at least nine different upload sources at the time of testing. One internal department has its own access. Other



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departments, (including shared-services), manage end-user content through contracted third-parties or plug-ins. Some end-user pages are outsourced. We found no written record of this information being centrally held.

Communication Team officers show good understanding of website Accessibility Regulations and they share expertise informally with other departments. Accessibility was regularly monitored, with an Accessibility Statement and SiteImprove reports available on the website. These reports and sample testing showed compliance with the exceeded standard of AAA 2.1 Web Content Accessibility Guidelines (WCAG). Some formal accessibility training had been promoted but only undertaken by seven officers across the council.

We found effective working processes within corporately managed areas. Operational procedures enabled digitally accessible content to be uploaded. Pages were consistent in visual style and format. User-feedback was provided for, monitored and has started to be used pro-actively across the organisation.

Sample testing found easily available online information and services. However, not all of the end-user result pages of our sample were managed by the Communications Team. We found that end-user results on sub-domains and some uploaded documents were inconsistent in visual style and format. Accessibility scores varied for the results that could be tested, and showed issues meaning only partial compliance with AA 2.1 WCAG. The Accessibility Statement was not reflective of this.

Provision has been made for recognising accessibility issues when sourcing future third-party suppliers, however, there continues to be a lack of clarity with regard to enhancing accessibility for existing provision.

Committee Management

Strong

Testing confirmed that the committee system governance arrangement the Council adopted in May 2022 is a permitted form of governance in England allowable since the introduction of the Localism Act 2011. The Council are fulfilling the only statutory governance requirement to scrutinise crime and disorder matters, as this responsibility has been assigned to the Communities Committee.



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Objectives, benefits, and risks of moving towards a committee system were appropriately considered by a cross-party constitution working group. Members were provided with timely detailed reports to enable informed decision making and recommendations made were fully endorsed by Council. In addition, the Council's constitution has been updated to reflect the changes, including a Committee Terms of Reference, and changes to the Schemes of Officer Delegation, the revised constitution was adopted at the Annual Council meeting in May 2022.

Two small findings have been raised recommending minor amendments to the Constitution, however overall, we can conclude that the Council's controls were effective from the initiation phase through to the implementation of the committee system. Insights from other councils who had made changes to their governance structure were proactively sought, and the Council appointed an external lawyer to provide detailed training to Members.

Food Safety

Sound

The audit confirmed that the team have sufficient controls in place to implement the food hygiene rating system in accordance with the Food law code of practice (England). We confirmed that the service followed the FSA Local Authority Recovery Plan guidance to prioritise inspections during the recovery phase and review of an outstanding inspections report verified that the team are now caught up with routine inspections. Testing confirmed that the majority or newly registered business had been inspected within the required time scales. Officers are suitably trained and ongoing CPD arrangements are in place to maintain competencies. In addition there are adequate procedures in place to deal with complaints and appeals.

However, there are areas where improvements could be made, particularly around record keeping. In addition there is a need for standard operating procedures be reviewed and updated as the audit identified instances where documented procedures do not align to current working practices.

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Annex D

Reconciliation of the approved 2022/23 Internal Audit Plan

The Position column provides the position as at 31 May 2023 and with the exception of the shaded reviews, does not warrant that this will be the final position for any of these reviews. The highlighted rows, below, are the reviews which informed the 2022/23 Head of Audit Opinion statement.

It was acknowledged that there can be a time-lag between issue of the draft report and the subsequent 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	Position at 31 May 2023
Environmental Enforcement	Finalised
IT Project Management	Finalised
Website & Accessibility	Finalised
Committee Management	Finalised
Workforce Planning	Finalised
Temporary Accommodation	Cancelled by Service
Project Management - Swale House Refurb	Work in Progress
Accounts Receivable	Finalised
Accounts Payable	Finalised
Asset Inspection	Postponed 2023/24
Maintenance of Open Spaces	Postponed 2024/25
Waste Contract Tendering	Cancelled
Food Safety	Agreed Draft
Licensing Enforcement	Work in Progress
Private Water Supply	Draft Issued
IT Backup and Recovery	Postponed until 2023/24
Network Security	Dropped - replaced by Cyber security audit in 2023/24

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Annex E

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 (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 Standards and the CIPFA Local Government Application Note (LGAN). The Standards 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. These points are currently being reviewed and managed by the Head of Mid Kent Audit.
- 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.

Resources

- F. 2022/23 was a year of unprecedented staff change within Mid Kent Audit. Details of a number of these changes have previously been reported to the Audit Committee in the reports submitted by Mid Kent Audit. At the end of the financial year there were significant vacancies in the management of the partnership and the Head of Mid Kent Audit has been undertaking a review of the staffing requirements to ensure the service is future proofed and fit for



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purpose to deliver the service required by our partners. This review has now been completed and recruitment is underway. There will still be an impact during 2023/24, but the position will improve over the course of the year.

Use of an external provider to assist with audit reviews

- G. In September 2022, following a procurement process, Veritau 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.