

TONBRIDGE & MALLING BOROUGH COUNCIL



EXECUTIVE SERVICES

Chief Executive

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NB - This agenda contains proposals, recommendations and options. These do not represent Council policy or decisions until they have received proper consideration through the full decision making process.

Contact: Committee Services
committee.services@tmbc.gov.uk

24 March 2016

To: MEMBERS OF THE AUDIT COMMITTEE
(Copies to all Members of the Council)

Dear Sir/Madam

Your attendance is requested at a meeting of the Audit Committee to be held in the Civic Suite, Gibson Building, Kings Hill, West Malling on Tuesday, 5th April, 2016 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

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(LGA 1972 Sch 12A Paragraph 3 – Financial or business affairs of any particular person)

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

MEMBERSHIP

Cllr V M C Branson (Chairman)
Cllr T Edmondston-Low (Vice-Chairman)

Cllr M C Base
Cllr T Bishop
Cllr B T M Elks
Cllr S R J Jessel

Cllr S M King
Cllr Mrs S L Luck
Cllr M Parry-Waller

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 25th January, 2016

Present: Cllr V M C Branson (Chairman), Cllr T Edmondston-Low (Vice-Chairman), Cllr T Bishop, Cllr B T M Elks, Cllr S R J Jessel, Cllr S M King, Cllr Mrs S L Luck and Cllr M Parry-Waller

Grant Thornton, External Auditors: Ms S Ironmonger (Engagement Lead) and Mr T Greenlee (Audit Manager)

Councillors Mrs J A Anderson, O C Baldock, N J Heslop, D Lettington, D Markham and M R Rhodes were also present pursuant to Council Procedure Rule No 15.21.

An apology for absence was received from Councillor M C Base

PART 1 - PUBLIC

AU 16/1 GRANT THORNTON ENGAGEMENT LEAD

The Chairman welcomed Sarah Ironmonger who had replaced Darren Wells as the Council's external auditor Engagement Lead.

AU 16/2 DECLARATIONS OF INTEREST

There were no declarations of interest made in accordance with the Code of Conduct.

AU 16/3 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 7 September 2015 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 16/4 TREASURY MANAGEMENT UPDATE AND ANNUAL INVESTMENT STRATEGY FOR 2016/17

The report of the Director of Finance and Transformation provided details of investments undertaken and returns achieved in the first nine months of the current financial year together with an introduction to the Treasury Management and Annual Investment Strategy for 2016/17.

It was noted that investment income was £19,600 above the revised budget for the same period and £36,550 above the original estimate. This was largely attributable to a more favourable pattern of payments to

the Government and other recipients of business rates collected by the Council. Reference was made to the modest uplift in returns built into the investment income projection for 2016/17 in anticipation of a Bank Rate rise during the year. However the Committee was informed that Capita, the Council's treasury advisors, had recently updated their forecast based on a delay in interest rate rise from mid to end of 2016.

Members asked questions on various aspects of the investment performance and content of the Strategy. The Chairman indicated the intention of arranging appropriate training on treasury management, details of which would be given in due course.

RECOMMENDED: That

- (1) the treasury management position as at 31 December 2015 be noted; and
- (2) the Treasury Management and Annual Investment Strategy for 2016/17, as set out at Annex 4 to the report, be adopted.

DECISIONS TAKEN UNDER DELEGATED POWERS IN ACCORDANCE WITH PARAGRAPH 3, PART 3 OF THE CONSTITUTION

AU 16/5 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

The report of the Director of Finance and Transformation gave details of the outcome of the annual review of the Council's Anti-Fraud Policies and Whistleblowing Policy. It was noted that in each case no substantive changes were proposed other than some minor textual amendments together with a reflection of the responsibility of the Department for Work and Pensions for investigation of housing benefit fraud in the Anti-Fraud Policies.

Members considered the policies presented in the annexes to the report and suggested a number of amendments which would be addressed by the officers.

RESOLVED: That

- (1) the Anti-Fraud Policies set out at Annexes 1, 2 and 3 to the report be approved subject to the amendment of paragraph 4.12 of the Anti-Fraud and Corruption Policy to reflect the current value of gifts and hospitality to be declared under the Constitution; and the inclusion in paragraph 4.18 of examples of bodies undertaking external scrutiny of the Council; and
- (2) the Whistleblowing Policy set out at Annex 4 to the report be commended to the General Purposes Committee for

endorsement subject to the inclusion in paragraph 6.1 of advice to raise a concern even if unsure about the precise criteria for doing so; and the amendment of the third bullet point of paragraph 6.6 regarding verbal complaints to read: "...the employee is encouraged to write down any relevant information and date it."

AU 16/6 ACCOUNTING POLICIES FOR 2015/16 FINANCIAL STATEMENTS

Consideration was given to the report of the Director of Finance and Transformation which presented the Accounting Policies proposed for the 2015/16 Financial Statements. The report highlighted a new accounting policy which reflected a change to the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 in respect of the valuation of investment properties. The report was corrected at the meeting to indicate that the valuation of investment properties was previously undertaken at market value and would now be carried out on the balance sheet at fair value.

RESOLVED: That the Accounting Policies set out at Annex 1 to the report be endorsed for use in the preparation of the 2015/16 Financial Statements.

AU 16/7 INTERNAL AUDIT CHARTER

The report of the Chief Internal Auditor informed the Committee of the outcome of the review of the Internal Audit Charter and highlighted an amendment to reflect the shared service arrangement with Kent County Council. It was noted that the Audit and Assurance Manager had been named as the officer fulfilling the role of Chief Audit Executive under the Public Sector Internal Audit Standards following the departure of the Chief Internal Auditor. The re-drafting of the Charter therefore anticipated the consideration of a report on establishment structure by the General Purposes Committee on 1 February 2016.

Members were advised that it might be necessary to update the Charter again at the April meeting to reflect a consultation on two new elements regarding a mission statement and ten core principles of effective internal audit.

RESOLVED: That subject to the outcome of the General Purposes Committee in respect of the role of Chief Audit Executive, as set out in paragraph 1.2.3 of the report, the Internal Audit Charter at Annex 1 thereto be noted and approved.

AU 16/8 PROPOSED WORK PROGRAMME AND SCALES OF FEES FOR 2016/17

The report of the Director of Finance and Transformation introduced the Work Programme and Scales of Fees for 2016/17 proposed by Public Sector Appointments Limited (PSAA) in respect of work undertaken by

the Council's external auditors. It was noted that PSAA, which now carried out the responsibilities previously discharged by the Audit Commission, did not plan to make any changes to the overall work programme and proposed that the 2016/17 scale audit fees and indicative certification fees be set at the same level as those applicable in 2015/16.

Members were advised of the options available for appointing external auditors at the end of the existing contract in 2018 via an individual or joint independent auditor panel or sector-led body and of a prospective initiative of the Local Government Association. Concern was expressed that arrangements would be onerous on an individual basis particularly in relation to engaging the necessary level of expertise. An update would be provided as more information became available.

RESOLVED: That the 2016/17 Proposed Work Programme and Scales of Fees be noted and endorsed.

MATTERS SUBMITTED FOR INFORMATION

AU 16/9 INTERNAL AUDIT AND FRAUD INVESTIGATION UPDATE

The report of the Chief Internal Auditor provided an update on the work of both the Internal Audit and Counter Fraud functions for the period 1 April to 31 December 2015. The Committee was advised of progress against the 2015/16 Internal Audit Plan and Members' questions answered regarding the audit of car park income and corporate credit cards. A policy in respect of the use of corporate credit cards was requested and the officers undertook to report back on the matter to a future meeting.

Details were given of the Council's activity in preventing and detecting fraud and corruption. Reference was also made to work undertaken with a number of external agencies in progressing investigations and a summary presented of those concluded in 2015/16 to date. Members were advised that the Fraud Team no longer investigated allegations of housing benefit fraud which would now be undertaken by the DWP, all current cases being physically handed over on 2 February 2016.

RESOLVED: That the report be received and noted subject to a future report on a corporate credit card policy.

AU 16/10 ANNUAL AUDIT LETTER

The report of the Director of Finance and Transformation advised the Committee of the receipt of the Annual Audit Letter summarising the main outcomes from the work carried out by the external auditors for the year ended 31 March 2015. The letter was introduced by Mr Greenlee who indicated that it repeated the headline messages in the Audit Findings Report presented to the Committee in September 2015. These

were that the Council's accounts were produced to a high standard, there continued to be an effective framework of financial control and robust arrangements for financial governance, addressing financial pressures and delivering planned savings. The Council also recognised the need for a wider approach to transformation and was addressing this by preparing a revised corporate strategy.

Members welcomed the letter and congratulated all staff involved.

RESOLVED: That the report be received and noted.

AU 16/11 GRANT THORNTON - AUDIT COMMITTEE UPDATE

The report of the Director of Finance and Transformation introduced Grant Thornton's report on progress in delivering their responsibilities as the Council's external auditors and summarising a number of relevant national issues and developments. Ms Ironmonger drew attention to a recent publication "Knowing the Ropes – Audit Committee Effectiveness" which could be discussed further at a future meeting if the Committee so wished. She offered to supply paper copies of the document on request.

RESOLVED: That the report be received and noted.

AU 16/12 GRANT THORNTON PUBLICATION - REFORGING LOCAL GOVERNMENT

The report of the Director of Finance and Transformation introduced Grant Thornton's report "Reforging Local Government" published in December 2015. Ms Ironmonger highlighted the challenges presented by the Local Government Finance Settlement and the difficult choices facing local authorities. She encouraged Members to read the full report, paper copies of which were available on request.

The Leader referred to the Council's Savings and Transformation Strategy which would be revisited at the forthcoming Cabinet meeting and ongoing discussions between the West Kent district councils and Kent County Council regarding configuration of services.

RESOLVED: That the report be received and noted.

AU 16/13 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.56 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Chair of the Audit Committee

Part 1- Public

Matters for Recommendation to Council

1 AUDIT COMMITTEE ANNUAL REPORT

This report is produced to inform Council on how the Audit Committee has provided those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It is recommended that the Audit Committee agree that this report is presented to Council to support this assurance.

1.1 Introduction

- 1.1.1 The Accounts & Audit (England) Regulations impose a responsibility on a local authority “for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”
- 1.1.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out the role of Audit Committees in their Practical Guidance for Local Authorities 2013. This states that “*the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.*”
- 1.1.3 The Audit Committee comprises nine Members. The Committee has four meetings each year at which reports submitted by Officers and the External Auditors are considered. By consideration of these reports and matters raised within them it is considered that the Audit Committee fulfils the core functions of an Audit Committee as set out in the CIPFA Guidance and is able to give independent assurance to the Council to meet the requirements of the Accounts & Audit Regulations.
- 1.1.4 The core functions of the Audit Committee are dealt with in the following paragraphs.

1.2 Assurance Statements

- 1.2.1 The Audit Committee is required to consider and approve the contents of the Annual Governance Statement (AGS), which took place in June 2015.
- 1.2.2 The council has a Local Code of Corporate Governance that sets out how the council will comply with the principles of the CIPFA/SOLACE (Society of Local Authority Chief Executives) "Framework for Delivering Good Governance in Local Government". This Local Code of Corporate Governance is reviewed regularly and presented to the Audit Committee for endorsement.
- 1.2.3 The AGS explains how the council complies with the Local Code of Corporate Governance and the Accounts & Audit Regulations.
- 1.2.4 Part of the AGS gives updates on emerging issues and identifies impacts in the future of these issues as well as setting out action taken to enhance the overall corporate governance framework.
- 1.2.5 The AGS is supported by signed Assurance Statements provided by members of the core Management Team and the three statutory officers and is prepared by way of a self-assessment questionnaire and supporting evidence. No significant concerns were raised as a result of this exercise.
- 1.2.6 At the April 2015 Audit Committee meeting there was confirmation from both Management Team and Audit Committee that the council had complied with International Standards on Auditing.
- 1.2.7 The Local Code of Corporate Governance was reviewed and revised in June 2015 prior to recommendation for adoption by Council. This will be used as the basis for the AGS relating to 2015/16.

1.3 Internal Audit Function

- 1.3.1 The Audit Committee has a role in relation to the council's Internal Audit function to: -
- Oversee its independence, objectivity, performance and professionalism.
 - Support the effectiveness of the internal audit process.
 - Promote the effective use of internal audit within the assurance framework.
- 1.3.2 The Audit Committee received a number of reports to oversee the role of the Internal Audit function.
- 1.3.3 The Annual Internal Audit Plan for 2015/16 was presented to the Audit Committee in April 2015 and they were able to consider the content prior to recommending approval.

- 1.3.4 In June 2015 the Audit Committee was presented with a report from the Chief Internal Auditor as a summary of supporting evidence to the AGS. This report gave the Chief Internal Auditor's opinion that the council had maintained an adequate and effective internal control environment.
- 1.3.5 The Audit Committee is required to consider the effectiveness of Internal Audit on an annual basis. This review was based upon evidence produced and the view of Management Team. A report was submitted to the Audit Committee in June 2015 which reported that Management Team opinion on the effectiveness of Internal Audit was "Good". Members considered the findings of this review and endorsed the opinion that the effectiveness of Internal Audit was "Good".
- 1.3.6 The Audit Committee was given a report in June 2015 on the work completed by Internal Audit in the previous year that detailed how resources had been used. The report also covered a number of performance measures to assist the Audit Committee to assess the performance and effectiveness of the function.
- 1.3.7 The Internal Audit Charter is a key document in the delivery of Internal Audit setting out the purpose, authority and responsibilities of the service which was subject to review at the January 2016 meeting of the Audit Committee.
- 1.3.8 The Internal Audit Charter gives the Audit and Assurance Manager (as Chief Audit Executive) the right to raise issues directly with the Chair of the Audit Committee if considered necessary. This would only occur in circumstances where the Audit and Assurance Manager considered that the Chair of the Audit Committee needed to be made aware of significant assurance concerns. There have not been any instances where this has been considered necessary.
- 1.3.9 Throughout the year the Audit Committee received a number of reports updating Members of the progress of work carried out by Internal Audit against the Audit Plan. These reports informed the Audit Committee of internal audit's opinion on the audits undertaken and gave additional information where a red opinion (evidence of significant non-compliance) was given.

1.4 Audit Committee Responsibilities

- 1.4.1 The responsibilities of the Audit Committee are set out in the Constitution of the Council. As the Audit Committee has been a relatively new Committee there had been a number of areas where there were overlaps of responsibility with other Committees. This led to duplication of effort and delayed process.
- 1.4.2 The Council meeting of 17 February 2015 agreed to a number of Constitutional changes to reflect the alignment of the Audit Committee to new CIPFA guidance on the role of the Audit Committee. This led to the Audit Committee having areas of delegated responsibility transferred to them and this report summarises how these have been effectively discharged in 2015/16.

1.5 Risk Management Arrangements and Control Environment

- 1.5.1 The Audit Committee is required to consider the effectiveness of the council's risk management arrangements and the control environment. The Members are required to review the risk profile for the council and seek assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- 1.5.2 The risk profile for the council is undertaken as part of the audit needs assessment to identify those areas where Internal Audit is most effective.
- 1.5.3 The Risk Management Strategy is the framework for setting out the responsibilities for ensuring that a sound risk management process is in place. The strategy is reviewed by the Audit Committee on an annual basis and this review took place in June 2015 when the current strategy was considered fit for purpose and it was recommended to Council that it would be adopted again.
- 1.5.4 The Risk Management Strategy requires managers to carry out a review of their operational registers every six months. This process did not result in any material concerns that required reporting to Members.
- 1.5.5 The strategy states that Members would receive risk management training during their four year term of office. This training was last held in January 2013 and therefore the next round will be arranged for 2016/17.
- 1.5.6 The Insurance Officer maintains a record of all claims made against the council which are reported to the Audit Committee on a regular basis. These reports also inform Members of the steps being taken to minimise similar claims being made.
- 1.5.7 All reports to Council require a risk assessment of the issues involved to be reported as part of the consideration of the report.

1.6 Assurance Framework and Planning

- 1.6.1 The assurance framework is the overall process that provides evidence to support the AGS. The Audit Committee has a responsibility to understand what assurance is available to support the AGS.
- 1.6.2 The AGS was presented to Members at the meeting of June 2015. The supporting evidence to the AGS consisted of a document setting out the areas of the assurance framework to be considered with an explanation of evidence that supported the conclusions of the AGS.

1.7 Value for Money and Best Value

- 1.7.1 One specific area for the Audit Committee should be consideration of the external auditor opinion on value for money as set out in the codes of audit practice. In addition, the Audit Committee should consider what other assurances are

available in relation to identified value for money risks and highlight areas for improvement. (CIPFA Audit Committee Guidance).

- 1.7.2 The External Auditors, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2015 which was presented to the Audit Committee at their meeting of January 2016.
- 1.7.3 The report concluded that the external auditor was satisfied that in all significant respects the council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.
- 1.7.4 As part of the embedded system for achieving value for money all Council reports contain a section where value for money is considered.

1.8 Countering Fraud and Corruption

- 1.8.1 The Audit Committee role is defined as having an oversight of the strategy to counter fraud and to assess whether or not it meets recommended practice and standards.
- 1.8.2 The Audit Committee is responsible for the review of the policies relating to countering fraud and corruption. In January 2016 it reviewed the Whistleblowing Policy and recommended that it was endorsed by the General Purposes Committee. In the same meeting the anti-fraud policies were reviewed and, subject to any amendments, subsequently approved.
- 1.8.3 The Audit Committee also receives updates on the progress of the National Fraud Initiative results and other work undertaken by the Fraud Team with the Internal Audit updates. The Whistleblowing Policy requires the Audit Committee to be informed of the outcome of any investigations arising from concerns raised under it. No such matters have been drawn to the attention of the Committee in the period covered by the report.

1.9 External Audit

- 1.9.1 The Audit Committee should receive all reports from external auditors and monitor action to be taken that arises from them.
- 1.9.2 The Audit Committee has received copies of all external auditor reports during the year and has been able to consider the content. The external auditors provide a representative to all Audit Committee meetings where the Audit Committee is able to raise questions regarding the content of reports.

1.10 Financial Reporting

- 1.10.1 Local Authority accounts are produced in line with guidance set out by CIPFA. The role of the Audit Committee with regard to these financial statements is not one of detailed knowledge of this guidance but is more aligned to focus on

financial reporting and financial governance rather than on the wider issues of spending and performance.

1.10.2 The CIPFA Guidance identifies areas that the Audit Committee should be concerned with as follows: -

- reviewing the explanatory foreword to ensure consistency with the statements and the financial challenges and risks facing the council in the future
- reviewing whether the foreword is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the council in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, e.g. provisions
- seeking assurances that preparations are in place to facilitate the external audit.

1.10.3 The Audit Committee received the Statement of Accounts at the meeting of 22 June 2015. This report gave the Audit Committee assurance that the accounts were presented in compliance with required legislation and best practice guidance. Following consideration of the accounts and a detailed report giving evidence of how compliance is achieved the Audit Committee agreed to endorse the Statement of Accounts and supporting documents.

1.11 Partnership Governance

1.11.1 The latest CIPFA Guidance identifies that the Audit Committee should review assurances over partnerships to ensure that arrangements are satisfactorily established and are operating effectively.

1.11.2 The arrangements for significant partnerships are covered as part of the audit planning process and covered within individual audits as appropriate.

1.12 Treasury Management

1.12.1 Although it is not included as a core objective of the Audit Committee, the CIPFA Guidance recognises that Treasury Management scrutiny may be a function of

some Audit Committees to meet the requirements of the CIPFA Treasury Management Code of Practice.

- 1.12.2 The Committee receive regular updates on Treasury Management including the treasury management mid-year review and annual report. At the meeting of 25 January 2016 Members of the Audit Committee reviewed the Treasury Management Strategy Statement and Investment Strategy for 2016/17 and recommended it be adopted by Cabinet and full Council.

1.13 Training

- 1.13.1 The Chair and Members of the Audit Committee receive in-house and or external training at varying intervals to assist with the understanding of the issues considered.
- 1.13.2 On 9 June 2015 an Informal Audit Committee Briefing was held attended by Members of the Committee and relevant Officers, each of whom gave a briefing on the papers they present. Further training, including Treasury Management was discussed in January 2016 and is being arranged for May/June 2016/17.

1.14 Conclusion

- 1.14.1 The evidence in the preceding paragraphs explains how the Audit Committee has overseen the core functions of an Audit Committee as defined in the CIPFA Guidance.
- 1.14.2 As stated at 1.1.2 the CIPFA Guidance identifies that the purpose of the Audit Committee 'is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.' This report acts to provide that independent assurance to Council.

1.15 Legal Implications

- 1.15.1 The Audit Committee role is based upon the CIPFA Guidance and meets the requirements of the Accounts & Audit Regulations.

1.16 Financial and Value for Money Considerations

- 1.16.1 The Audit Committee has a role considering the external opinion on value for money. This has been undertaken as outlined in section 1.7 of this report.

1.17 Risk Assessment

- 1.17.1 The Audit Committee consideration of risk assessment is covered in section 1.5 of this report.

1.18 Equality Impact Assessment

1.18.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.

1.19 Recommendations

1.19.1 That Members of the Audit Committee consider this report and recommend that it is presented to Council to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

Background papers:

contact: Vivian Branson

Nil

Councillor Vivian Branson
Chair of Audit Committee

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 TREASURY MANAGEMENT UPDATE

This report provides an update on treasury management activity undertaken during the 2015/16 financial year within the context of the national economy and invites Members to endorse the action taken by officers and note the treasury position at the end of February 2016.

1.1 Introduction

1.1.1 CIPFA issued a revised Code of Practice for Treasury Management in November 2009. The revised Code was adopted by the Council on 18 February 2010 and suggests that Members should be informed of Treasury Management activity at least twice a year, but preferably quarterly. This report ensures the Council is embracing Best Practice in accordance with CIPFA's revised Code of Practice and subsequent updates.

1.2 Economic Background

1.2.1 The start of 2016 saw significant falls in stock markets around the world following renewed concerns of a downturn in the Chinese economy and the implications for global growth and commodity prices. Whilst stock markets have largely recovered in recent weeks the prospect of weaker global growth going forward remains an issue.

1.2.2 In America the Federal Reserve raised the Fed Rate (equivalent of our Bank Rate) by 0.25% to 0.50% in December 2015. The rise, the first since 2006, was accompanied by an expectation that four, albeit limited, rises would follow in 2016. At the conclusion of the March FOMC meeting, chair Janet Yellen, citing economic risks from abroad scaled back that prediction to two rate rises.

1.2.3 As part of his March budget, the Chancellor presented the latest forecasts from the Office for Budgetary Responsibility (OBR) for both economic growth and public sector borrowing. The OBR has suggested that productivity growth is set to remain weak and that this will have a meaningful effect on economic growth going forward. Consequently, GDP growth forecasts were revised down and are now

predicting GDP to be between 2.0% and 2.2% over the course of the next 5 years (vs 2.2% and 2.5% Autumn Statement 2015). Faced with an economy growing slower than anticipated, the Chancellor introduced additional cuts in government spending to allow a budget surplus to be returned in 2019/20.

- 1.2.4 At the March meeting of the Bank of England's Monetary Policy Committee (MPC), members voted unanimously to hold the Bank Rate at 0.5% and make no change to the programme of quantitative easing. Faced with low inflation, a slowing economy, worrisome foreign markets and the uncertainty of the referendum on the UK's membership of the European Union, there is little to no pressure on the MPC to tighten monetary policy in the near term.
- 1.2.5 The Consumer Price Index (CPI) rose by 0.3% in the twelve months to January and was around 0% throughout 2015. The BoE anticipate inflation will rise above the 2% target over the course of the next two to three years. Given the anticipated trajectory of inflation, the current market expectation of a rate rise in the UK being delayed to 2019, looks pessimistic. Whilst recent commentary from the MPC suggests they are likely to refrain from a rate rise in 2016, a rise sometime in 2017 would fit with inflation forecasts.

1.3 Interest Rate Forecast

- 1.3.1 The Bank Rate has remained at an emergency level of 0.5% for the last 7 years. Capita's latest forecast, updated in February 2016, anticipates the Bank Rate will remain at this level for a further 9 months before rising in the first quarter of 2017.

Rate	Now %	Mar- 16 %	Jun- 16 %	Sep- 16 %	Dec- 16 %	Mar- 17 %	Jun- 17 %	Sep- 17 %	Dec- 17 %	Mar- 18 %	Jun- 18 %	Sep- 18 %
Bank Rate	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
3 mth LIBID	0.52	0.50	0.50	0.60	0.60	0.80	0.90	1.00	1.10	1.30	1.30	1.60
6 mth LIBID	0.66	0.70	0.70	0.70	0.80	0.90	1.00	1.20	1.40	1.60	1.70	1.80
12 mth LIBID	0.98	1.00	1.00	1.00	1.10	1.20	1.30	1.50	1.70	1.90	2.00	2.10
25yr PWLB	3.05	3.20	3.20	3.30	3.30	3.50	3.50	3.60	3.60	3.70	3.70	3.70

1.4 Investment Performance

- 1.4.1 In accordance with the CIPFA Code the Council's priorities, in order of importance, are: to ensure security of capital; liquidity; and having satisfied both, to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 1.4.2 Cash flow funds are available on a temporary basis and their amount varies from month to month and during the course of each month depending on the timing of receipts (council tax, business rates, grants and other sources of income) and payments (precepts, NNDR pool contributions, benefits, staff and suppliers). In addition the Council has £14.8m of core cash balances available for investment.

These funds which comprise our revenue and capital reserves are for the most part available to invest for more than one year.

- 1.4.3 As at the end of February 2016, funds invested and interest earned is set out in the table below.

	Funds invested on 29 Feb 2016	Average duration to maturity	Weighted average rate of return	Interest earned to 29 Feb 2016	Gross annualised return	LIBID benchmark
	£m	Days	%	£	%	%
Cash flow	16.9	33	0.62	102,350	0.65	0.36 (7 day)
Core funds	14.8	103	0.85	105,450	0.82	0.46 (3 month)
Total	31.7	66	0.73	207,800	0.73	0.40 (average)

- 1.4.4 Interest earned of £207,800 is £33,450 better than the revised budget for the same period and £54,050 better when compared to the original estimate for 2015/16. The authority also outperformed the LIBID benchmark by 33 basis points. Income for the financial year as a whole is likely to be in the region of £221,000, some £53,500 better than originally anticipated.

- 1.4.5 A full list of investments held on 26 February 2016 and our lending list of the same date are provided at **[Annex 1]** and **[Annex 2]**.

- 1.4.6 The Council participates in Capita's benchmarking service which enables the Council to gauge performance against Capita's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) against credit / duration risk (horizontal scale) associated with an authority's investments. At the end of December 2015 our return (purple diamond) was in-line with that anticipated by the model based on our exposure to credit / duration risk. At 0.76% the Council's return bettered the non-metropolitan district average of 0.69% and the overall population average (includes county councils, unitary, police and fire authorities) of 0.70%.

- 1.4.7 **Cash Flow Funds.** Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. Cash flow surpluses will typically be invested overnight in bank deposit accounts and money market funds to ensure sufficient short term liquidity to meet payment obligations. However, when cash surpluses permit, fixed term investments are undertaken to take advantage of the higher yields available. In April 2015, £5m nine month fixed term investments were

undertaken yielding circa 0.8%. Mid-summer £6.5m six month fixed term investments were placed yielding an average of 0.7%. In December 2015, £2.5m three month deposits, yielding 0.55%, were placed to take advantage of the mid-February peak in cash flow balances.

- 1.4.8 A significant element of the Council's daily cash balance relates to the collection of business rates, the majority of which is paid over to Government, KCC and Kent Fire and Rescue. Whilst the Council is responsible for determining when to collect, Government determines when payments to themselves and others are due. In 2014/15 and earlier years payments to Government and others were spread over ten monthly instalments starting in April and ending the following January. For 2015/16 outgoing payments have been spread over 12 equal monthly instalments starting in April. The result has been higher daily balances, which have been available for longer, enabling the council to undertake more fixed term investments than would otherwise have been the case. More, higher yielding, term deposits accounts for some £38,500 (72%) of the additional income referred to above. The current payment profile to Government is going to be retained by them for 2016/17 which should largely offset any delay in interest rate rises.
- 1.4.9 **Core Funds.** Following the transfer of all core fund investments from our external fund manager to in-house management in August 2014, the opportunity to enhance yield by extending duration has continued. The current core fund portfolio comprises mainly nine month term deposits and includes one high yielding call account. The pattern of maturities in spring 2016 and again in autumn 2016 ensures additional liquidity is available to the Council to support spending at the end of the financial year and to take advantage of improved offers from banks as we approach a rise in Bank Rate. Income generated from core funds for the 2015/16 financial year as a whole is expected to be some £15,000 higher than originally anticipated.

1.5 Borrowing

- 1.5.1 It is a statutory duty for the Council to determine and keep under review the 'Affordable Borrowing Limits' by way of the Prudential Indicators (affordability limits) set out in the approved Treasury Management Strategy Statement. In this regard it is confirmed that no borrowing was undertaken in the period April 2015 to February 2016.

1.6 Compliance with the Annual Investment Strategy

- 1.6.1 Throughout the period April 2015 to February 2016 the requirements set out in the 2015/16 Annual Investment Strategy which aim to limit the Council's exposure to investment risks (minimum counterparty credit criteria; sovereign, counter-party and group exposure limits; type of investment instrument; and investment duration limits) have been complied with.

1.7 Legal Implications

1.7.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. In addition, Capita are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.8 Financial and Value for Money Considerations

1.8.1 The Bank Rate has remained at a historical low (0.5%) for a seventh successive year. The 'Funding for Lending' initiative introduced by the Bank of England in summer 2012 had a significant downward impact on returns being offered by financial institutions at the time and that impact has continued. At the end of February 2016, investment income of £207,800 has been earned exceeding our revised estimate for the same period by £33,450. Income for the financial year as a whole is likely to be in the region of £221,000, some £53,500 better than originally anticipated (£38,500 cash flow and 15,000 core funds).

1.8.2 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Capita's benchmarking service.

1.9 Risk Assessment

1.9.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to be an effective way of mitigating the risks associated with treasury management.

1.10 Equality Impact Assessment

1.10.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.

1.11 Recommendations

1.11.1 Members are invited to **recommend** that Cabinet:

- 1) endorse the action taken by officers in respect of treasury management activity for the period April 2015 to February 2016; and
- 2) note the treasury position at the end of February 2016.

Background papers:

contact: Mike Withey

Forecast and benchmarking data provided by Capita.

Sharon Shelton
Director of Finance and Transformation

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Investment Summary as at 26 February 2016

Counterparty	Sovereign	Fitch Credit rating		Capita Credit Worthiness/ Suggested Duration Limit	Investment						Instrument type	Core Fund £	Cash Flow £
		Long Term	Short Term		Start Date	End Date	Duration	Amount Invested £	Return %	Proportion of total %			
Bank of Scotland	UK	A+	F1	6 months	14/01/2016	14/10/2016	9 months	1,000,000	0.85%	6.30%	Fixed deposit	1,000,000	1,000,000
Bank of Scotland	UK	A+	F1	6 months	21/01/2016	21/10/2016	9 months	1,000,000	0.85%		Fixed deposit		
Bank of Scotland Total								2,000,000					
Barclays Bank	UK	A	F1	100 days	29/05/2015	29/02/2016	9 months	1,250,000	0.81%	11.03%	Fixed deposit	1,250,000	1,000,000
Barclays Bank	UK	A	F1	100 days	17/09/2015	17/03/2016	6 months	1,000,000	0.71%		Fixed deposit		
Barclays Bank	UK	A	F1	100 days	22/07/2015	22/04/2016	9 months	1,250,000	0.86%		Fixed deposit	1,250,000	
Barclays Bank Total								3,500,000					
Blackrock MMF	n/a	AAA	mmf (Eq)	5 years	26/02/2016	29/02/2016	n/a	2,521,000	0.48%	7.94%	Call - MMF		2,521,000
Blackrock MMF Total								2,521,000					
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	26/02/2016	29/02/2016	n/a	2,600,000	0.52%	8.19%	Call - MMF		2,600,000
BNP Paribas MMF Total								2,600,000					
Goldman Sachs Int'l Bank	UK	A	F1	100 days	10/12/2015	09/09/2016	9 months	2,000,000	0.87%	6.30%	Fixed deposit	2,000,000	
Goldman Sachs Int'l Bank Total								2,000,000					
Lloyds Bank	UK	A+	F1	6 months	21/01/2016	21/10/2016	9 months	1,000,000	0.85%	9.45%	Fixed deposit		1,000,000
Lloyds Bank	UK	A+	F1	6 months	09/12/2015	09/03/2016	3 months	500,000	0.57%		Fixed deposit		500,000
Lloyds Bank	UK	A+	F1	6 months	14/04/2015	13/04/2016	1 year	1,000,000	1.00%		Fixed deposit	1,000,000	
Lloyds Bank	UK	A+	F1	6 months	24/07/2015	25/04/2016	9 months	500,000	0.80%		Fixed deposit	500,000	
Lloyds Bank Total								3,000,000					
Morgan Stanley MMF	n/a	AAA	mmf	5 years	26/02/2016	29/02/2016	n/a	364,000	0.47%	1.15%	Call - MMF		364,000
Morgan Stanley MMF Total								364,000					
NatWest Bank Call Account	UK	BBB+	F2	1 year	26/02/2016	29/02/2016	n/a	10,000	0.25%	0.03%	Call		10,000
National Westminster Bank Total								10,000					
Nordea Bank AB	Sweden	AA-	F1+	12 months	03/12/2015	03/03/2016	3 months	1,000,000	0.55%	6.30%	CD		1,000,000
Nordea Bank AB	Sweden	AA-	F1+	12 months	23/12/2015	23/03/2016	3 months	1,000,000	0.55%		CD		1,000,000
Nordea Bank AB Total								2,000,000					
Nationwide Building Society	UK	A	F1	6 months	29/05/2015	29/02/2016	9 months	1,250,000	0.79%	11.03%	Fixed deposit	1,250,000	1,000,000
Nationwide Building Society	UK	A	F1	6 months	17/09/2015	17/03/2016	6 months	1,000,000	0.66%		Fixed deposit		
Nationwide Building Society	UK	A	F1	6 months	16/12/2015	16/09/2016	9 months	1,250,000	0.84%		Fixed deposit	1,250,000	
Nationwide Building Society Total								3,500,000					
Prime Rate / Federated MMF	n/a	AAA	mmf	5 years	26/02/2016	29/02/2016	n/a	1,040,000	0.47%	3.28%	Call - MMF		1,040,000
Prime Rate / Federated MMF Total								1,040,000					
Santander UK Plc	UK	A	F1	6 months	26/02/2016	29/02/2016	n/a	5,200,000	0.80%	16.39%	Call	2,600,000	2,600,000
Santander UK Plc Total								5,200,000					
Royal Bank of Scotland	UK	BBB+	F2	1 year	23/03/2015	23/03/2016	1 year	1,000,000	0.90%	3.15%	CD	1,000,000	
Royal Bank of Scotland Total								1,000,000					
Standard Chartered Bank	UK	A+	F1	n/c	05/06/2015	04/03/2016	9 months	1,000,000	0.80%	9.45%	CD	1,000,000	
Standard Chartered Bank	UK	A+	F1	n/c	10/06/2015	10/03/2016	9 months	1,500,000	0.81%		CD	1,500,000	
Standard Chartered Bank	UK	A+	F1	n/c	18/09/2015	18/03/2016	6 months	500,000	0.73%		CD		
Standard Chartered Bank Total								3,000,000					
Total invested								31,735,000		100.00%		15,600,000	16,135,000

Number of investments	27	Average investment value £		1,175,000	
Number of counter parties	15	Average counter party investment £		2,116,000	
Group exposures:		Core £	Cash £	Combined £	%
RBS + National Westminster (UK Nationalised 25% per fund)		1,000,000	10,000	1,010,000	3.18
Bank of Scotland + Lloyds (20% per fund)		2,500,000	2,500,000	5,000,000	15.76

Total non-specified investments should be less than 60% of Core Funds	0.00%
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CD = Certificate of Deposit

n/c = no colour / no new investment

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Tonbridge and Malling Borough Council Lending List

Checked against Capita Duration Matrix dated 26/02/16								
Minimum investment criteria is Capita Green (100 days) Duration Band (entry point broadly equates to Fitch A-, F1 unless UK nationalised / semi-nationalised).								
Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Exposure Limits			Capita Duration [2]
					Cash Flow	Core Fund	Combined	
Bank of Montreal	Canada	AAA	AA-	F1+	£2.6m	£3.0m	£5.6m	12 months
Deutsche Bank	Germany	AAA	A-	F1	£2.6m	£3.0m	£5.6m	n/c
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AA+	AA-	F1+	£2.6m	£3.0m	£5.6m	12 months
ING Bank	Netherlands	AA+	A	F1	£2.6m	£3.0m	£5.6m	6 months
Nordea Bank AB	Sweden	AAA	AA-	F1+	£2.6m	£3.0m	£5.6m	12 months
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	£2.6m	£3.0m	£5.6m	12 months
Bank of Scotland (Group limit with BOS and Lloyds of £2.6m - £5.6m)	UK	AA+	A+	F1	£2.6m	£3.0m	£5.6m	6 months
Barclays Bank	UK	AA+	A	F1	£2.6m	£3.0m	£5.6m	100 days
Goldman Sachs International Bank	UK	AA+	A	F1	£2.6m	£3.0m	£5.6m	100 days
HSBC Bank	UK	AA+	AA-	F1+	£2.6m	£3.0m	£5.6m	6 months
Lloyds Bank (Group limit with BOS and Lloyds of £2.6m - £5.6m)	UK	AA+	A+	F1	£2.6m	£3.0m	£5.6m	6 months
Santander UK	UK	AA+	A	F1	£2.6m	£3.0m	£5.6m	6 months
Standard Chartered Bank	UK	AA+	A+	F1	£2.6m	£3.0m	£5.6m	n/c
Nationwide Building Society	UK	AA+	A	F1	£2.6m	£3.0m	£5.6m	6 months
National Westminster Bank [3] (Group limit with Nat West and RBS of £3.3m - £7.1m)	UK	AA+	BBB+	F2	£3.3m	£3.8m	£7.1m	12 Months
The Royal Bank of Scotland [3] (Group limit with Nat West and RBS of £3.3m - £7.1m)	UK	AA+	BBB+	F2	£3.3m	£3.8m	£7.1m	12 Months
UK Debt Management Office including Treasury Bills	UK	AA+	N/A	N/A	No limit	No limit	No limit	N/A
UK Treasury (Sovereign Bonds-Gilts)	UK	AA+	N/A	N/A	No limit	£7.5 / 15m	£7.5 / 15m	N/A
UK Local Authorities	UK	AA+	N/A	N/A	£2.6m	£3.0m	£5.6m	N/A

[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires sovereigns to be rated at least AA-. Non-UK 20% sovereign limit equals combined limit quoted above (£5.6m).

[2] All deposits overnight unless otherwise approved in advance by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight duration must not exceed Capita's recommendation (Capita + 3 months for UK Entities up to a maximum of 12 months).

[3] UK nationalised / semi-nationalised.

Money Market Funds						
Minimum investment criteria one of AAA-mf, AAAmmf or AAAm						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAA	£2.6m	£3.0m	£5.6m
BNP Paribas	-	-	AAA	£2.6m	£3.0m	£5.6m
Goldman Sachs	AAA-mf	AAAmmf	AAA	£2.6m	£3.0m	£5.6m
Deutsche Fund	AAA-mf	-	AAA	£2.6m	£3.0m	£5.6m
Standard Life (Ignis)	-	AAAmmf	AAA	£2.6m	£3.0m	£5.6m
Morgan Stanley	AAA-mf	AAAmmf	AAA	£2.6m	£3.0m	£5.6m
Prime Rate	-	AAAmmf	AAA	£2.6m	£3.0m	£5.6m
Insight Liquidity Group limit for IL and ILP of £2.6m - £5.6m	-	AAAmmf	AAA	£2.6m	£3.0m	£5.6m

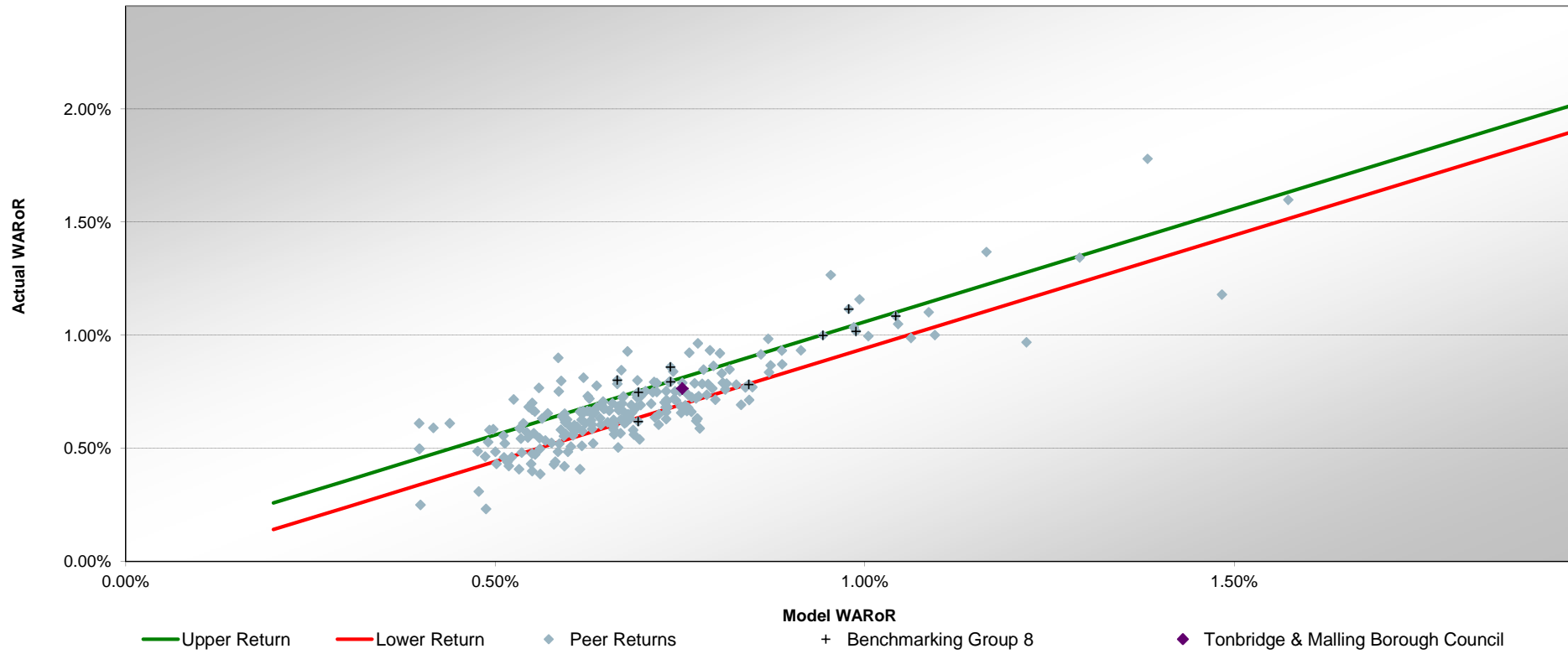
Enhanced Cash Funds						
Minimum investment criteria AAA						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus Group limit for IL and ILP of £2.6m - £5.6m	-	-	AAAf/S1	£1.3m	£1.5m	£2.8m

Approved by Director of
Finance & Transformation
29th February 2016

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Tonbridge & Malling Borough Council

Population Returns against Model Returns
December 2015



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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.76%	0.75%	0.01%	0.69%	0.81%	Inline

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 APPOINTMENT OF EXTERNAL AUDITORS

This report provides an update on the options available for the appointment of external auditors at the end of the current transitional arrangements.

1.1 Introduction

- 1.1.1 The Local Audit and Accountability Act 2014 (the Act) introduced a new decentralised audit regime where councils could appoint their own external auditors and manage their own audit arrangements.
- 1.1.2 The Act brought to a close the Audit Commission and established transitional arrangements whereby Public Sector Audit Appointments Limited (an independent company established by the Local Government Association) is responsible for the appointment of external auditors and the setting of audit fees.
- 1.1.3 On 5 October 2015 the Secretary of State for Communities and Local Government notified his intention to extend by one year the transitional arrangements to include the audit of the accounts for 2017/18.
- 1.1.4 When the transitional arrangements come to an end on 31 March 2018 there are three broad options open to the Council.

1.2 Options for Local Appointment of External Auditors

Option 1 – To make a stand-alone appointment

- 1.2.1 In order to make a stand-alone appointment the Council must set up, consult and take into account the advice of an independent auditor panel on the selection and appointment of an auditor. The appointment to be made by full Council not later than the 31 December in the preceding financial year. Therefore, the Council would need to have appointed an external auditor for the 2018/19 financial year by 31 December 2017 and the panel to be in place by April 2017 in order to be involved in the procurement process. The panel is to consist of a majority of independent members (or wholly of independent members) and must be chaired by an independent member.

- 1.2.2 Setting up an auditor panel allows the Council to have local input to the decision. However, this would be a costly exercise in terms of recruitment and maintaining the auditor panel. In addition, the Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts; and it is not known whether there would a sufficient availability of independent members.

Option 2 – Set up a Joint Independent Auditor Panel

- 1.2.3 The Act enables the Council to join with other councils to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent members. Further legal advice will be required on the exact constitution of such a panel and the Council would need to liaise with other local councils to assess the appetite for such an arrangement.
- 1.2.4 This has the advantage of spreading the cost across a number of councils and possible savings through economies of scale in a larger joint procurement process. On the other hand, the decision making body will be further removed from local input and the choice of auditor could be complicated where individual councils have independence issues.

Option 3 – Opt-in to a Sector Led Body

- 1.2.5 In response to the consultation on the new arrangement the LGA successfully lobbied for councils to be able to opt-in to a Sector Led Body (SLB) appointed by the Secretary of State. The SLB to negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent auditor panel. The LGA are considering setting up such a body utilising the knowledge and experience gained from the transitional arrangements.
- 1.2.6 Under this option the Council as now has no input to the appointment of the auditor. However, a SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

1.3 Next Steps

- 1.3.1 The Council will need to take action to implement new arrangements for the appointment of external auditors. In order to inform what happens next Members are asked to give consideration to the preferred approach.

The Council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils.

1.4 Legal Implications

- 1.4.1 Section 7 of the Act requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.
- 1.4.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 1.4.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

1.5 Financial and Value for Money Considerations

- 1.5.1 Current external fees levels are likely to increase when the current contracts end in 2018. Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering into a large scale collective procurement arrangement and would remove the costs of establishing and maintaining an auditor panel.

1.6 Risk Assessment

- 1.6.1 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 1.6.2 Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

1.7 Equality Impact Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Recommendations

- 1.8.1 Members are requested to **consider** their preferred approach and **recommend** accordingly.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The purpose of the report is to inform Members of the addition of a 'Mission' and a set of 'Core Principles' to the Public Sector Internal Audit Standards and the subsequent update to the Internal Audit Charter.

1.1 Introduction

1.1.1 In 2015, among other changes to the International Professional Practices Framework (IPPF), the Institute of Internal Auditors introduced two mandatory elements: a 'Mission' and a set of ten 'Core Principles' for the professional practice of internal auditing.

1.1.2 The Internal Audit Standards Advisory Board in January 2016 then consulted practitioners and other stakeholders in the public sector as to whether there were any fundamental reasons why these two new elements should not be part of the Public Sector Internal Audit Standards (PSIAS).

1.1.3 One reason for incorporating them sooner rather than later is to eliminate inconsistency for members of the Institute of Internal Auditors in the UK public sector. In addition, incorporation will prevent the PSIAS from going out of date. A 'Mission' and 'Core Principles' are themselves considered welcome additions to the overall IPPF. The 'Mission' states Internal Audit's primary purpose and overarching goal – 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight'; while the 'Core Principles' set out what an effective internal audit activity looks like as follows:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.

- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

1.1.4 Both a 'Mission' and a set of 'Core Principles' following the consultation have been added to the PSIAS from 1 April this year.

1.2 Internal Audit Charter

1.2.1 The Internal Audit Charter is a key document in the delivery of Internal Audit, setting out the purpose, authority and responsibility of the internal audit function.

1.2.2 In light of the addition of two new elements to the PSIAS detailed above the Internal Audit Charter has been reviewed and updated accordingly. A copy of the updated Charter with amendments highlighted is attached at **[Annex 1]**.

1.3 Legal Implications

1.3.1 Section 151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of their financial affairs". Further to this, the Accounts & Audit Regulations require a relevant body to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control."

1.3.2 The Internal Audit Charter is based upon the requirements set out in the PSIAS and the CIPFA Local Government Application Note which is identified as "proper practice" for internal audit.

1.4 Financial and Value for Money Considerations

1.4.1 An adequate and effective internal audit function provides the Council with assurance on the proper, economic, efficient and effective use of resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.

1.5 Risk Assessment

1.5.1 The Internal Audit Charter has been prepared with due consideration to proper practice, as set out in the PSIAS and the CIPFA Local Government Application Note to the PSIAS. It is, therefore, considered that adequate action has been taken to minimise the risk that external assessment could consider the Charter to not meet proper practice.

1.6 Equality Impact Assessment

1.6.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.7 Recommendations

1.7.1 Members are asked to **approve** the updated Internal Audit Charter [**Annex 1**] following the addition of two new elements to the Public Sector Internal Audit Standards, a 'Mission' and a set of 'Core Principles'.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

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INTERNAL AUDIT CHARTER

Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. *Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.*

Authority

The requirement for an Internal Audit function for local authorities is implied by Section 151 of the Local Government Act 1972, which requires that authorities "make arrangements for the proper administration of their financial affairs." The Accounts and Audit Regulations specifically require relevant bodies to "undertake an adequate and effective Internal Audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." Proper Practices is defined as the Public Sector Internal Audit Standards (PSIAS – herein referred to as the Standards) along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA); as such compliance with these documents is mandatory.

The Standards set out requirements for the work of Internal Audit to be led by a Chief Audit Executive (CAE); at Tonbridge & Malling Borough Council this role is fulfilled by the Audit and Assurance Manager. The Standards also set out the responsibility for oversight of the work of Internal Audit as falling jointly to 'senior management' and 'the board'; at Tonbridge & Malling senior management is defined as the Council's Management Team and the board is defined as the Audit Committee.

The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit activity in fulfilling its roles and responsibilities. The Internal Audit activity will also have free and unrestricted access to the Audit Committee.

Professionalism and Professional Standards

The Internal Audit activity will govern itself by adherence to the Standards along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA). This mandatory guidance constitutes *a Mission Statement, the 10 Core Principles, the* definition of Internal Audit, the Code of Ethics and Standards for the professional practice of Internal Auditing and for evaluating the effectiveness of the Internal Audit activity's performance. The Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life, and will adhere to the Council's policies and procedures and the Internal Audit Manual.

Organisational Relationships

The CAE will report functionally to the Council's Management Team and Audit Committee and therefore the appointment or termination of the CAE will be reported to Management Team and the Audit Committee.

The Chair of the Audit Committee will monitor the performance of the CAE and will be invited to provide feedback to the appraisal process for this officer.



INTERNAL AUDIT CHARTER

The CAE will communicate and interact directly with the Audit Committee, inside and outside of the formal meetings of the Committee as appropriate.

The CAE is responsible for the provision of the Internal Audit function, but may also be a client of Internal Audit for other services and functions under their responsibility. Where the CAE is a client of Internal Audit, audit management responsibilities in relation to the assignment will be passed to an independent third party to ensure that Internal Auditors remain independent enabling them to carry out their work freely and objectively in accordance with the Standards.

Relationship with the Director – Finance & Transformation (Section 151 Officer)

The CAE has direct access to the Director – Finance & Transformation as Section 151 Officer.

Relationship with the Monitoring Officer

The CAE has direct access to the Director – Central Services as Monitoring Officer.

Relationship with the Chief Executive & Head of Paid Service

The CAE has direct access to the Chief Executive (also the Head of Paid Service).

Relationship with Management Team

The CAE is able to report in their own right to the Council's Management Team, which consists of the Chief Executive and four Directors including the Council's Section 151 Officer and Monitoring Officer.

Relationship with the Audit Committee

The CAE has direct access to the Chair of the Audit Committee and is able to report in their own right to the Audit Committee. The role of the Committee includes monitoring of the performance of the Internal Audit function. This is primarily achieved through consideration of interim and annual Internal Audit reports. Additionally, the CAE will prepare and present an annual risk based audit plan to the Audit Committee for approval and give an annual opinion on governance, risk management and internal control.

Relationship with External Audit

The CAE will liaise with External Audit to:

- co-ordinate the overall audit effort;
- ensure appropriate sharing of information;
- reduce the incidence of duplication of effort;
- foster a co-operative and professional working relationship.

In particular the CAE shall:

- discuss the annual Internal Audit plan with the External Auditor to facilitate external audit planning;
- make all Internal Audit working papers and reports available to the External Auditor;
- receive copies of relevant External Auditor communications.



INTERNAL AUDIT CHARTER

Independence and Objectivity

The Internal Audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Auditor's judgement.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Where there is a training need identified by the CAE then appropriate training will be sought. All members of the Internal Audit team will be invited to attend the annual conference arranged by the Kent Audit Group.

Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements. Each member of the team will make a declaration of any interests or of 'no interest' on an annual basis and any interests will be taken into account when allocating audit work across the team. Where an audit is scheduled for a function for which the CAE is responsible, audit management responsibilities in relation to the assignment will be passed to an independent third party.

The CAE will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity.

The conduct of an audit or the provision of advice by an Internal Auditor does not in any way diminish the responsibility of line management for the proper execution and control of their activities.

Responsibility

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by Internal Audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.
- Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the Audit Committee in evaluating the quality of performance of external auditors and maintains a proper degree of coordination with External Audit.

Internal Audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit Committee or management, as appropriate.

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Council's Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee. The CAE is responsible for the Council's counter fraud activity including



INTERNAL AUDIT CHARTER

maintenance of the Anti-Fraud & Corruption Policy which sets out arrangements for all suspected or detected fraud, corruption or impropriety to be reported to Internal Audit.

The work of Internal Audit extends to consider the entire control environment of the Council. This enables the CAE to fulfil the responsibility under the Accounts and Audit Regulations in providing an opinion on the Council's internal control environment, based on the work of Internal Audit. This opinion is then considered by the Council as part of the annual review of the Council's governance arrangements.

Partnership Working

The role of CAE is provided by way of a secondment agreement with Kent County Council under a partnership working arrangement. The objective of this partnership is to provide a high quality Internal Audit service with added resilience, share best practice and work to align working practices in order to provide a consistent high quality service across the two councils.

The Internal Audit team based at Tonbridge & Malling Borough Council consists of the CAE by way of a secondment agreement with Kent County Council and two full time trainee auditors/auditors. The partnership working arrangement with Kent County Council provides the opportunity for Internal Auditors at both councils to conduct audits at either council where it is practical and beneficial to do so. The Internal Auditor assigned to each audit review is selected by the CAE based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly.

Audit reviews may also be performed by any of the following on a case by case basis provided that they are suitably qualified:

- engaged agency staff;
- engaged consulting services.

In the case of the engagement of a person from another council or of a consultant, formal arrangements are to be set in place and agreed by the Director of Finance & Transformation in accordance with the Council's Contracts Procedure Rules after budget provision has been agreed.

Internal Audit Plan

At least annually, the CAE will submit to the Audit Committee an Internal Audit plan for review and approval, including risk assessment criteria. The Internal Audit plan will include timing as well as budget and resource requirements for the next financial year. The CAE will communicate the impact of resource limitations and significant interim changes to the Council's Management Team and the Audit Committee.

The Internal Audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of the Council's Management Team and the Audit Committee. Prior to submission to the Audit Committee for approval, the plan will be discussed with the Council's Management Team. Any significant deviation from the approved Internal Audit plan will be communicated through the periodic activity reporting process.

Reporting and Monitoring

A written report will be prepared and issued following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Audit Committee.

The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response,



INTERNAL AUDIT CHARTER

whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Quality Assurance and Periodic Assessment

The CAE is responsible for providing periodically a self-assessment on the Internal Audit activity as regards its consistency with the Audit Charter (purpose, authority, and responsibility), compliance with the Standards and performance relative to its Plan.

In addition, the CAE will communicate to the Council's Management Team and the Audit Committee on the Internal Audit activity's Quality Assurance and Improvement Programme, including results of annual internal assessments of the effectiveness of the system of internal audit and external assessments conducted at least every five years.

Signed by:

Chief Audit Executive (CAE)

Chair of the Audit Committee

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT AND FRAUD PLAN 2016/17

This report seeks Members approval of the Internal Audit and Fraud Plan for the year 2016/17.

1.1 Introduction

- 1.1.1 The professional standards for Internal Audit require the Chief Audit Executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. A risk-based Internal Audit Plan has been prepared for the 2016/17 financial year to fulfil this requirement.
- 1.1.2 The Internal Audit Plan has been broadened to include the work plan of the Fraud Team following the transfer of responsibility for the investigation of alleged housing benefit fraud to the DWP. As a result the Plan is now a combined Internal Audit and Fraud Plan.

1.2 Internal Audit and Fraud Plan 2016/17

- 1.2.1 A copy of the proposed Internal Audit and Fraud Plan for 2016/17 is attached at **[Annex 1]** of this report. This is intended to provide Members with a clear picture of how the Council will make use of its Internal Audit and Fraud Team, reflecting on all work to be undertaken by the Team during the financial year.
- 1.2.2 In accordance with the requirements of the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note to the Standards information on the process for developing, resourcing and delivering the Plan is provided in the Plan itself rather than in the covering report.
- 1.2.3 The proposed Plan has been reviewed and endorsed by Management Team and has also been shared with Grant Thornton LLP, the Council's External Auditor.

1.3 Legal Implications

- 1.3.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and

of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

1.3.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.

1.3.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.4 Financial and Value for Money Considerations

1.4.1 An adequate and effective Internal Audit function provides the Council with assurance on the proper, economic, efficient and effective use of Council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.

1.4.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.5 Risk Assessment

1.5.1 The Internal Audit and Fraud Plan is intended to ensure that the work of the Internal Audit and Fraud Team is effectively directed. For this very reason, the process for preparing the Plan is itself informed by an assessment of the risks and audit needs of the Council. Members' endorsement of the Internal Audit and Fraud Plan for the year 2016/17 ensures that the status of the Plan is maintained.

1.6 Equality Impact Assessment

1.6.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.7 Recommendations

1.7.1 Members are asked to **consider** and **approve** the Internal Audit and Fraud Plan for the year 2016/17.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

Tonbridge & Malling Borough Council Internal Audit and Fraud Plan 2016-17

1. Introduction

- 1.1 Section 151 of the Local Government Act 1972 and Regulation Six of the Accounts and Audit Regulations (England) set out the requirement for Local Authorities to have an Internal Audit function. The [Public Sector Internal Audit Standards](#) define Internal Audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.
- 1.2 Tonbridge & Malling Borough Council's Internal Audit and Fraud function contribute to the effective and efficient delivery of the Council's objectives and is delivered and developed in accordance with the Council's Internal Audit Charter.
- 1.3 This Internal Audit and Fraud Plan (the Plan) is prepared in accordance with the Public Sector Internal Audit Standards (PSIAS), the Local Government Application Note and the CIPFA Code of Practice for Anti-Fraud and Corruption. The Plan aims to ensure that sufficient audit and fraud assurance work is carried out to enable the Chief Audit Executive to deliver an opinion regarding the adequacy and effectiveness of the internal control arrangements within the Council.

2. Audit and Fraud Risk Assessment

- 2.1 The 2016-17 Internal Audit and Fraud Plan has been based upon an annual risk assessment of the Council and its resultant Internal Audit and Counter Fraud needs. The risk assessment is undertaken to:
 - 2.1.1 Identify the Council's business objectives.
 - 2.1.2 Identify the business activities to aim to meet those objectives.
 - 2.1.3 Rank these systems in terms of risk, taking into account the sensitivity of the system, any revised management arrangements and the risk of fraud and error, to enable prioritisation of areas for review.
- 2.2 The results of this process are used in conjunction with review of risk registers, input from Senior Management and knowledge of the wider control environment. The aim is to help ensure that Internal Audit and Fraud resources are directed effectively to the key risk areas where they can add the most value in helping to ensure the achievement of objectives, the improvement of internal control and the efficiency of service delivery.

3. Resourcing

- 3.1 The Internal Audit and Fraud functions of Tonbridge & Malling Borough Council and Kent County Council have operated a shared management arrangement since May 2015. The 2016-17 Internal Audit and Fraud Plan will be delivered using the resource based at Tonbridge & Malling Borough Council which consists of the Audit & Assurance Manager (0.5fte), two full-time Internal Auditors and two Fraud Officers (1.6fte) subject to any requirements for specialist skills (see 3.3 below).
- 3.2 The total audit and fraud resource available in 2016-17 is 700 days which is considered sufficient to provide assurance over all high risk areas identified by the Audit Needs and Fraud Risk Assessments and to deliver the annual audit opinion. The audit planning process considers the skills and experience of the team when programming audits, and all work planned is considered to be within the capability of the team.

- 3.3 The Internal Auditor or Fraud Officer assigned to each audit/fraud review is selected by the Audit & Assurance Manager based on their knowledge, skills, experience, discipline and any declared conflicts of interest to ensure that the review is conducted effectively. If a review calls for specialist skills/experience beyond that within the team, arrangements would be put in place to secure specialist skills from KCC as part of the partnership arrangement or from an external contractor if that is not possible. The level and skills of audit resources available will remain under review throughout the year to ensure that they continue to be sufficient.
- 3.4 The Internal Audit and Fraud Plan contributes to the Council's overall assurance framework and as such, where possible, information will be shared and activities coordinated with other internal and external providers of assurance to the Council.

4. 2016-17 Internal Audit and Fraud Plan

- 4.1 The Plan is intended to provide a clear picture of how the Council will make use of its Audit and Fraud function, reflecting all work to be undertaken by the team during the financial year. The Plan is split by assurance and consultancy work, proactive fraud work and time for investigations. The Plan records, for each area of planned work the proposed high-level scope and the number of days that have been allocated.
- 4.2 The Internal Audit and Fraud Plan reflects the Council's focus on identifying financial savings and opportunities for generating efficiencies in services. The Plan also incorporates targeted proactive anti-fraud work intended to assist in ensuring that the Council has appropriate arrangements in place to prevent and detect fraud, as far as possible.
- 4.3 As in previous years it is intended that the Internal Audit and Fraud team will remain responsive to the needs of the Council, the Directors and Senior Management during 2016-17; this is reflected in the provision of contingencies within the Plan for consultancy services, responsive work, investigations and advice and information unknown at the time of planning. It should be recognised, however, that any requests for additional work which are not covered by the allowances within the Plan may impact on the team's ability to achieve work specified in the Plan.

5. Monitoring & Reporting

- 5.1 The Internal Audit and Fraud Plan will remain under review throughout the year and be adjusted as necessary, in response to changes in the Council's business, risks, operations, programs, systems and control. All such changes will be reported to and agreed with Management Team and Audit Committee.
- 5.2 The performance of the Internal Audit and Fraud function is monitored and reported to the Audit Committee through regular reports including the overall opinion on the Council's governance, risk and control environment in the Annual Internal Audit Report.

No	Area of Audit Focus	Audit Days	Directorate	Rationale/Proposed High Level Scope
	ASSURANCE WORK			
	<u>Control assurance reviews</u>			
1	Complaints	7	Corporate	Post-implementation review of corporate system to provide assurance that objectives were met and benefits realised, to include review of outcomes in relation to appeals/ombudsman cases, etc.
2	Risk Management	12	Corporate	Annual assessment of risk management for reliance purposes including risk appetite and risk identification, assessment and mitigating actions.
3	Corporate Governance	12	Corporate	Review of the Local Code of Corporate Governance in line with the new Delivering Good Governance in Local Government (2016 Edition).
4	Safeguarding	15	Corporate	Implementation of the Safeguarding Strategy organisation-wide, finalisation of the scope will include consideration of key risk areas.
5	Partnerships	12	Corporate	To review the development and monitoring of key partnership arrangements to provide assurance on delivery of objectives.
6	Project and Programme Management	15	Corporate	A review to provide assurance that projects and programmes are effectively managed to deliver on time and to budget while achieving expected outcomes and realising benefits.
7	Demand Management	15	Corporate/CS	A review of strategies to manage demand on services through effective communication and dissemination of information, this could include getting things 'right first time' and use of our website.
8	Recruitment Strategy	12	Corporate/CS	Review to provide assurance on recruitment strategies, in particular in relation to hard to fill posts. Final scope to be defined but will potentially include use of recruitment incentives and consideration of alternative strategies such as shared services or use of consultants.
9	Financial Planning & Budget Monitoring	15	Corporate/F&T	To provide assurance that financial planning is in line with organisational objectives and that robust controls exist in relation to monitoring to support achievement of savings targets.
10	Refunds	12	Corporate/F&T	Review of refunds of all types to provide assurance that appropriate controls exist to manage the risk of fraud and error following systemic frauds occurring at neighbouring local authorities.
11	Payroll	10	F&T	Cyclical review of key financial system - scope for 16/17 to focus on deductions and variations.
12	Debtors inc debt recovery	12	F&T	Cyclical review of key financial system.
13	Capital Programme Monitoring	15	F&T	Cyclical review of key financial system.
14	IT Asset Management, inc acquisitions and disposals	10	F&T	To provide assurance that robust controls exist in relation to managing IT assets, including that procurement achieves value for money and that disposal is undertaken cost effectively and safely in terms of information security and environmental impact.
15	IT Strategy & Infrastructure	12	F&T	To provide assurance that the IT strategy is in line with corporate objectives and supports an infrastructure that is fit for purpose and responsive to organisational change.
16	Council Tax and Business Rates Recovery	12	F&T	Cyclical review of key financial system to provide assurance that recovery is maximised to support financial targets.
17	Housing Benefit Overpayments	10	F&T	Cyclical review of key financial system to provide assurance that recovery is maximised to support financial targets.
18	Parking income	12	SST&L	A financially material income stream. The scope for 2016/17 will be risk focussed and therefore dependent on any changes to service provision and parking charges.
19	Leisure development - external provision	12	SST&L	A review to provide assurance on the development of external provision in relation to leisure services to achieve objectives in relation to service delivery as well as financial targets.
20	Business Continuity - Emergency Planning	12	SST&L	Review to provide assurance on resilience to cope with an emergency including resourcing arrangements.
21	Public Health	12	PH&E	To provide assurance that public health initiatives achieve objectives and represent value for money in light of potential changes to funding.
22	The Local Plan	20	PH&E	A review to provide assurance on development of the Local Plan and support in terms of advice/challenge. The exact scope of work will be informed by progress through the year but is likely to be focussed on key milestones.
23	Housing - Empty Property Follow-up	10	PH&E	Follow-up to work undertaken in 2015/16 to review progress of the Empty Homes work.
24	Development Control	12	PH&E	Review to provide assurance on current and/or revised processes to support business process re-engineering.
		298		
	<u>Counter-fraud activity</u>			
	National Fraud Initiative (NFI)	40		Time for sifting results to inform whether referral to DWP and/or investigation by TMBC is required - Next full release due January 2017.
	Kent Intelligence Network (KIN) and other data matching/analysis	30		To reduce fraud and error with focus on Council Tax discounts and exemptions - time for sifting results to inform any further action required.
	Review of controls to prevent fraud in relation to Business Rates	12		A review to provide assurance that controls are adequate to manage the risk of fraud or error.
	Review of controls to prevent fraud in relation to grants and financial support	10		A review to provide assurance that controls are adequate to manage the risk of fraud or error.
	Investigations	120		Includes investigation of Council Tax Reduction Scheme fraud and joint working with DWP as well as investigations arising from data matches from NFI and KIN outputs.
	<u>Audit follow up work</u>			

	Follow up of all recommendations agreed by management	15		Allowance for the routine follow up and reporting to the Council's Management Team of agreed recommendations.
		525		Total Assurance Work
	Consultancy/Fraud Awareness Work			
	<u>Known project work</u>			
	Preparation for External Quality Assessment	20		
	Provision of training, advice and increasing fraud awareness	25		
	Support to other enforcement activities	25		
	Single Point of Contact for DWP	40		
	Licensing development of e-forms - advice	10		
	Housing advice	10		
		130		
	<u>Allowances for work unknown at the time of planning</u>			
	Consultancy services	15		Allowance for the provision of consultancy services unknown at the time of planning.
	Responsive work	15		Allowance for the provision of responsive support to the Council during the year.
	Advice and information	15		Allowance for the provision of control advice and information to the Council during the year.
		700		

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Chair of the Audit Committee

Part 1- Public

Delegated

1 MEMBERS ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

This report explains how those charged with governance are required to assure the external auditor that the Council has complied with the requirements of the International Standards on Auditing.

1.1 Introduction

1.1.1 The International Standards on Auditing require the external auditor to be assured that those charged with governance (TCWG) are fulfilling their role in relation to management processes for identifying the risk of fraud and breaches of internal control. Specifically this requires confirmation of:

- How TCWG oversee management processes to identify and respond to such risks.
- Whether TCWG have knowledge of any actual, suspected or alleged frauds affecting the Council.

1.1.2 A set of specific questions were received from the external auditor. Responses are then given to these questions in order to demonstrate and assure the external auditor that the Council has complied with the Standards.

1.1.3 It is the Audit Committee that has responsibility for corporate governance for this purpose.

1.2 Assurance Evidence

1.2.1 The questions and the accompanying responses to the questions are attached at **[Annex 1]**. The responses to the questions have been prepared and agreed with the Chair of the Audit Committee.

1.2.2 Members of the Audit Committee are required to consider these responses and, in so doing, to be satisfied that the Council is complying with the International Standards on Auditing.

1.2.3 Management Team are also required to provide assurance of compliance with International Standards on Auditing in a separate questionnaire which can be found elsewhere on this agenda. This will provide the Audit Committee with additional evidence for their consideration.

1.2.4 There have not been any reported incidents of significant fraud or error to the Audit and Assurance Manager during 2015/16.

1.3 Legal Implications

1.3.1 Failure to comply with these Standards could leave the Council open to a higher incidence of fraud and error resulting in additional legal costs to resolve.

1.4 Financial and Value for Money Considerations

1.4.1 Non-compliance with these Standards could result in additional work being required by the external auditor to satisfy them that fraud and error were being prevented.

1.4.2 Any incidents of fraud require in depth investigation and use considerable resources to resolve. Any cost effective action to prevent instances of fraud will result in better use of resources.

1.5 Risk Assessment

1.5.1 It is considered that the risk management system in place supported by the policies and internal controls are sufficiently robust to minimise incidents of fraud and error to ensure compliance with the Standards.

1.6 Equality Impact Assessment

1.6.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.7 Recommendations

1.7.1 Members are asked to **endorse** the responses to the questions set out at **[Annex1]** by way of giving assurance to the external auditor of compliance with the International Standards on Auditing.

Background papers:

contact: Samantha Buckland

Nil

Council policies and records

Councillor Vivian Branson
Chair of the Audit Committee

Tonbridge & Malling BC

2015/16 Financial statements

Compliance with International Standards on Auditing: Information requested from Those Charged With Governance

Introduction

As part of our risk assessment procedures external auditors are required to obtain an understanding of certain management processes and the oversight of those processes by Those Charged With Governance (TCWG).

We therefore request responses from TCWG to the questions set out below. It is suggested the responses from TCWG should follow consideration of the responses from management.

For Tonbridge & Malling BC responsibility for approving the accounts falls to the Audit Committee.

ISA 240: Fraud		
1	How do TCWG exercise oversight of management's processes in relation to:	
a)	Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud.	<p>The Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2015/16. A Statement of Responsibilities for the Statement of Accounts is included in the Statement of Accounts which is approved by the Audit Committee and subsequently signed by the Chairman of the Committee and the Director of Finance and Transformation. This Statement of Responsibilities is supported by a detailed declaration from the Director of Finance and Transformation.</p> <p>The Accounts also contain the Annual Governance Statement which confirms compliance with the Code of Corporate Governance. It is signed by the Chief Executive and the Leader of the Council and confirms that there are no known breaches of laws and regulations.</p> <p>The Accounts are presented to Members with an accompanying report which explains significant items and movements.</p>
b)	Identifying and responding to risks of fraud in the organisation (including how TCWG oversee any specific risks of fraud which management has brought to its attention, or any classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist).	<p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption Policies supported by a Whistleblowing Policy with outcomes being reported to Members.</p> <p>There is a comprehensive internal audit programme based upon a risk assessment that covers all of the main accounting systems on a regular basis. These reviews result in an assurance level being given to Members for each individual audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their Annual Report. In addition, all reports and</p>

		<p>recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement.</p> <p>The Council works with partners to identify and investigate fraud. The referrals made through the National Fraud Initiative (NFI) exercise are investigated and outcomes are reported to Members of the Audit Committee.</p> <p>The Fraud Section works closely with the Department of Work and Pensions (DWP) to investigate allegations of fraud. There is also participation in the Housing Benefit Matching System that uses data matching in order to identify incorrect benefit payments.</p>
c)	Communication to employees of views on business practice and ethical behaviour.	<p>In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud and Corruption Policy and the Whistleblowing Policy are circulated to staff annually via "Netconsent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. Other relevant policies are also circulated as appropriate.</p> <p>All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Staff in some areas such as Housing Benefits and Internal Audit are also required to sign additional specific Codes of Conduct.</p>
d)	Communication to TCWG the processes for identifying and responding to fraud.	<p>The Anti-fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified.</p>
2	Have TCWG identified any specific fraud risks within the organisation, particular locations where fraud is more likely to occur, or areas that are at risk of fraud?	<p>The Audit Committee is responsible for overseeing the risk management process in place. The Council acknowledge the inherent risk of fraud occurring within the organisation, however, while there are systems recognised as being more at risk of fraud than others no specific fraud risks have been identified by TCWG in relation to location or area.</p> <p>In addition, regular reporting of insurance claims takes place. This would include any claims that have arisen from fraud or breaches of internal control.</p> <p>When the Annual Audit Plan is considered by the Audit Committee it will have taken into account any areas identified as high risk. Members receive an Annual Fraud Report detailing the work of the Investigations Team into the Council's highest fraud risk areas. Members are updated on publications such as "Protecting the Public Purse", exercises such as the National Fraud Initiative and action taken to address any issues raised.</p>

3	How are staff encouraged to report their concerns about fraud, and the types of concerns that they are expected to report?	<p>The Council has a Whistleblowing Policy for all Members, employees and contractors. This Policy enables concerns to be raised confidentially with an explanation of how concerns raised will be investigated and dealt with. It also gives guidance on the types of concerns to raise. The most recent version of this Policy was circulated to staff using "Netconsent".</p> <p>In addition, fraud awareness training is planned for 2016/17.</p>
4	How do they satisfy themselves that internal controls, including segregation of duties, exist and work effectively?	<p>Members are presented with an Annual Governance Statement that informs them of the procedures in place designed to minimise the risk of fraud and error.</p> <p>The Internal Audit process requires Internal Audit to give a level of assurance on the area audited. There are regular reports provided to the Audit Committee that inform Members of these assurance levels. Members are also given a summary of the audit with details of any recommendations made.</p> <p>The Committee are able to question the Chief Audit Executive on the contents of this report in order to satisfy themselves that adequate internal controls are in place to prevent fraud and breaches of internal control.</p> <p>Where there is a perceived weakness the report will contain steps recommended to strengthen the controls.</p> <p>Any reports addressed to the Council from the External Auditor are presented to the Audit Committee. The External Auditor and/or his representative/s regularly attend Audit Committee meetings and will present their findings to the Audit Committee as well as answering any questions on the reports.</p>
5	<p>Are TCWG aware of any actual, suspected or alleged frauds during the year?</p> <p>If yes, what has been the response?</p>	<p>The only frauds that have been reported to Members during 2015/16 related to Council Tax, Housing and Housing Benefit. No other significant concerns in 2015/16 have been reported to Members.</p>
6	<p>Are TCWG aware of any whistleblower tips or complaints during the year?</p> <p>If yes, what has been the response?</p>	<p>There were no concerns raised during the year 2015/16.</p>
ISA 250: Compliance with laws and regulations		
7	How do TCWG satisfy themselves that the Council complies with legislation and relevant regulatory frameworks?	<p>The Council's Constitution is written to ensure compliance with law and requires all officers to comply with the relevant legislation. The Annual Governance Statement contains assurance that all relevant laws have been complied with. Any breaches of laws or regulations will be reported to Members by the Monitoring Officer.</p>

		In addition, all reports to Members include a section giving consideration to and or setting out the legal position / implications.
8	Are you aware of any actual or potential litigation or claims that could materially affect the financial statements?	We are not aware of any actual or potential litigation or claims that could materially affect the financial statements.
ISA 260: Accounts planning risk		
9	Are TCWG aware of any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements? Where there are such risks, what is the likelihood of those risks materialising?	<p>The risk management system requires all Chief Officers to regularly review their risk registers and report any movements into the high area to Management Team. Updates on the outcome of these reviews are reported to the Audit Committee where appropriate. In addition, all reports to Members include an assessment of potential risks and steps taken to minimise the risk.</p> <p>These processes have not identified any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements.</p>
10	Are there any matters TCWG consider warrant particular attention during the audit? Are there any areas where they would request additional procedures to be undertaken?	There are no matters which TCWG consider warrant particular attention during the audit or areas where they would request additional procedures to be undertaken.
ISA 570: Going concern		
11	How do TCWG satisfy themselves that it is appropriate to adopt the going concern basis in preparing the financial statements?	<p>Going concern status is maintained through the use of the Medium Term Financial Strategy. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.</p> <p>The Council currently holds adequate levels of reserves that could be used in the event of emerging financial difficulties in the short term, allowing for more detailed plans to be considered and put in place for the longer term.</p> <p>Members receive regular reports on the financial position of the Council and, in turn, the impact on the Medium Term Financial Strategy and reserve balances.</p> <p>The assessment of going concern will also take into account the Council's status as a tax-raising body.</p>

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Management Team

Part 1- Public

Matters for Information

1 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

There is a requirement for Management Team to confirm to the external auditor that the International Standards on Auditing have been complied with. The Audit Committee is also required to do so and this report provides supporting evidence for that purpose.

1.1 Assurance

1.1.1 The determination of compliance with these Standards is by way of a set of questions posed by the external auditor. The questions and accompanying responses to the questions which have been considered and agreed by Management Team are attached at **[Annex 1]**.

1.1.2 It is the opinion of Management Team that these Standards have been complied with.

1.2 Legal Implications

1.2.1 Failure to comply with these Standards could leave the Council open to a higher incidence of fraud and error resulting in additional costs to resolve.

1.3 Financial and Value for Money Considerations

1.3.1 Non-compliance with these Standards could result in additional work being required by the external auditor to satisfy them that fraud and error were being prevented.

1.3.2 Any incidents of fraud require in depth investigation and use considerable resources to resolve. Any cost effective action to prevent instances of fraud will result in better use of resources.

1.4 Risk Assessment

1.4.1 It is considered that the risk management system in place supported by the policies and internal controls are sufficiently robust to minimise incidents of fraud and error to ensure compliance with the Standards.

Background papers:

contact: Samantha Buckland

Council policies and records

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

Tonbridge & Malling BC

2015/16 Financial statements

Compliance with International Standards on Auditing: Information requested from management

Introduction

As part of our risk assessment procedures external auditors are required to obtain an understanding of certain management processes and the oversight of those processes by Those Charged With Governance (TCWG). We therefore request responses from management and TCWG to the questions set out below.

For Tonbridge & Malling BC responsibility for approving the accounts falls to the Audit Committee.

Fraud

ISA (UK&I) 240 covers auditor's responsibilities relating to fraud in an audit of financial statements.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks and how TCWG oversee these processes. As part of the oversight process TCWG should consider the potential for override of controls and inappropriate influence over the financial reporting process.

We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud.

	Please explain how management:	2015/16 Responses:
1	Undertakes an assessment of the risk that the financial statements may be materially misstated due to fraud. Is there such a risk for 2015/16? If so what are the accounts, classes of transactions, or disclosures where fraud risks have been identified or are likely to exist?	<p>We consider that the potential for material misstatement within the financial statements due to fraud is negligible. This assessment is based upon the use of budgetary control, risk management and significant peer review by senior officers during the accounts close-down process.</p> <p>Management are asked to consider the risk of fraud and error when completing their operational risk registers and any areas that are considered significant risk are reported to Management Team.</p> <p>The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest.</p> <p>Management review financial statements as part of the year end closedown. This review includes the completion of a checklist on what reviews have been undertaken in order for the Section 151 Officer to be satisfied that the accounts have been prepared with a minimal risk of financial misstatement.</p> <p>No material risks have been identified for 2015/16.</p>
2	Identifies and responds to the risk of fraud in the organization, including the use of controls and the monitoring of those controls.	<p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption Policies supported by a Whistleblowing Policy with outcomes being reported to Members. Any reported</p>

		<p>allegations of fraud will be investigated and dealt with according to the relevant policies.</p> <p>The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest. The subsequent reviews result in an assurance level being given to Management and Members for each audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their Annual Report. In addition, all reports and recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement.</p> <p>There is a strong risk management culture within the organisation. Management is required to consider fraud and error within their services as part of the risk management process. Management have a duty to report any changes in movement towards higher risk and are also required to report any concerns of fraud for investigation.</p> <p>The authority undergoes regular budgetary control reporting to management and Members, and this could identify potential fraud as being a variation to the set budget. Internal Audit testing of risk areas is designed to identify potential anomalies. All services are required to complete risk registers and to consider the risk of fraud in this exercise.</p>
3	<p>Communicates to employees its views on business practice and ethical behaviour.</p>	<p>In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud and Corruption Policy and the Whistleblowing Policy are circulated to staff annually via "Netconsent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. Other relevant policies are also circulated as appropriate.</p> <p>All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Staff in some areas such as Housing Benefits and Internal Audit are also required to sign additional specific Codes of Conduct.</p>
4	<p>Communicates to TCWG regarding business risks, including the processes for identifying and responding to fraud.</p>	<p>The Council's standard report template requires Officers and Members to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority.</p> <p>Management when completing their operational risk registers are asked to consider those risks relevant to that service area including business risks.</p> <p>Anti-fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified.</p>

To support audit planning we would also like to obtain the following information. It is suggested a response is agreed by the management team.

5	Are you aware of any instances of fraud, errors or other regularities within the organisation during the year?	There have not been any reports of fraud or significant error reported to the Director of Finance and Transformation during this period.
6	Do you suspect fraud may be occurring within the organisation?	The Council acknowledge the inherit risk of fraud occurring within the organisation, however, there have been no areas of concern raised or any evidence of fraud referred to the Director of Finance and Transformation during this period. All Directors are required to submit an annual assurance statement which includes a requirement to declare any suspicions of significant fraud or error within their service. Fraud work has been targeted towards areas of investigation as promoted by the annual "Protecting the Public Purse" publication.
7	How do you encourage staff to report their concerns about fraud, and what type of concern are they expected to report?	The Council has a Whistleblowing Policy for all Members, employees and contractors. This Policy enables concerns to be raised confidentially with an explanation of how concerns raised will be investigated and dealt with. It also gives guidance on the types of concerns to raise. The most recent version of this Policy was circulated to staff using "Netconsent". In addition, fraud awareness training is planned for 2016/17.
8	Are you aware of any whistleblower tips or complaints during the year and what was your response?	There were no concerns raised during the year 2015/16.
9	Have any reports been made during the year under the Bribery Act?	No reports have been made during the year under the Bribery Act.
10	Are you aware of any entries made in the accounting records of the organisation that you believe or suspect are false or intentionally misleading?	There have not been any suspicions raised with the Director of Finance and Transformation nor have there been any indicators within the budget monitoring process that suggest this has occurred. The Council has a Whistleblowing Policy that enables staff to raise concerns in line with the Public Disclosure Act 1998.
11	Are you aware of any organisational or management pressure to meet financial or operating targets?	There is regular reporting of the Council's financial position to Management Team. The Director of Finance and Transformation will review and update the Medium Term Financial Strategy as financial and operating targets become stretched. The Council does not set income targets for individual officers so as not to unwittingly encourage improper practice. The approach adopted is to recognise trends and revise targets appropriately to respond to change with Management and Members being provided with regular updates. Budget monitoring takes place at regular intervals and any potential issues identified at an early stage. As a result of the Government's budget deficit reduction, the Council continues to manage ever increasing pressure for further savings and efficiencies. Management Team

	does not believe that this pressure compromises internal controls increasing the risk of fraud or error.
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Compliance with laws and regulations

Under ISA 250 we are required to obtain an understanding of the legal and regulatory framework applicable to the Council. We are also required to obtain from management a general understanding of the procedures followed by the Council to ensure compliance with this framework.

12	Please provide a brief summary of the procedures followed by the Council to ensure compliance with legislation and relevant regulatory frameworks.	<p>The Council's Constitution contains the details of regulatory framework. The Constitution also contains details of delegated responsibilities.</p> <p>All decision making Committee papers include a section for legal consideration and a synopsis of the legal position is included in reports.</p> <p>Any significant breaches of legislation are investigated by the Monitoring Officer and are reported to Members.</p>
13	Have there been any suspected breaches of the legal and regulatory framework reported to the Monitoring Officer during the year? Is there any indication of significant concerns not reported to the Monitoring Officer, or is the Council on notice of possible instances of non-compliance?	There have been no suspected breaches of the legal and regulatory framework reported to the Monitoring Officer during the year. There is no indication of significant unreported concerns, or possible instances of non-compliance.

Accounts planning risk

Under ISA 260 there is a requirement on auditors to obtain Management's view on:

14	The processes in place to identify risks which relate to financial reporting.	Risks which relate to financial reporting are mitigated by a robust financial planning and control framework including budgetary control and ensuring that staff involved in the process have the requisite skills and experience to fulfil their responsibilities.
15	The nature and extent of any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements.	<p>The risk management system requires all Chief Officers to regularly review their risk registers and report any movements into the high area to Management Team. Updates on the outcome of these reviews are reported to the Audit Committee where appropriate. In addition, all reports to Members include an assessment of potential risks and steps taken to minimise the risk.</p> <p>These processes have not identified any significant internal and external operational, financial, compliance or other risks facing the Council which might have an effect on the financial statements.</p>
16	Where there are such risks, the likelihood of those risks materialising.	No such risks have been identified.
17	Matters and events which occurred during the year that could influence our audit approach or the entity's	None to the best of our knowledge.

	financial statements.	
18	The appropriateness of the accounting policies to be used in the period and whether any changes in the entity's activities could require them to be updated.	Review of accounting policies recently undertaken with no major updates considered necessary.
19	Their awareness of laws, accounting standards, corporate governance and regulatory requirements (including changes in or new items) that could affect the financial statements.	Management Team kept informed of changes in accounting standards and regulatory requirements that could have a significant effect on the financial statements.
20	Their views on the entity's control environment, including the process of reviewing the effectiveness of the system of internal control and the results of any review.	Internal Audit reviews the effectiveness of internal controls and report accordingly to Management Team. Recommendations are made to chief officers, and at least once a year, a summary of recommendations is given to the whole Management Team. Management Team is satisfied as to the effectiveness of internal controls.
21	Have there been any significant transactions that are outside the Council's normal business activities?	None to the best of our knowledge.

Litigation and claims

Under ISA (UK&I) 501 auditors are required to perform audit procedures to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

22	What are management's policies and procedures for identifying, evaluating and accounting for litigation claims and assessments?	Any claims received are reviewed according to the circumstances of the claim.
23	Are there litigation and claims involving the Council which may give rise to a risk of material misstatement?	None to the best of our knowledge.
24	Have there been any inquiries or examinations performed by licensing, tax or other authorities and other regulators during the year?	There have been no such inquiries or examinations during the year which may give rise to a risk of material misstatement.
25	Please identify any external solicitors used during the year or who were working on open litigation or contingencies from prior years.	Bevan Britton.
26	Has the Council entered into any guarantee contracts?	The Council is acting as guarantor for the pension liability of Tonbridge and Malling Leisure Trust to permit its entry into the Kent County Council Superannuation Fund.

Related Parties

Under ISA (UK&I) 501 auditors are required to inquire of management and TCWG to obtain an understanding of the controls over related parties.

27	What controls does the Council have in place to identify, account for, and disclose, related party transactions and relationships (to include procedures over authorisation, recording and agreement of related party transactions?)	All staff are required to disclose any interests and this includes the potential for related party transactions. If there are any potential conflicts of interest then the person must not deal with the transaction. Failure to comply with this requirement is a disciplinary matter.
28	Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	We are not aware of any related party relationships or transactions that could give rise to instances of fraud. Chief Officers are required to complete a form annually declaring any such interests and each service maintains a record of disclosures of staff within the section.

Going concern

ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Under ISA 570 we are required to obtain from management an assessment of the organisation's ability to continue as a going concern.

29	How do management satisfy themselves that it is appropriate to adopt the going concern basis in preparing the financial statements?	<p>Going concern status is maintained through the use of the Medium Term Financial Strategy. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.</p> <p>The Council currently holds adequate levels of reserves that could be used in the event of emerging financial difficulties in the short term, allowing for more detailed plans to be considered and put in place for the longer term.</p> <p>Management Team receive regular reports on the financial position of the Council and, in turn, the impact on the Medium Term Financial Strategy and reserve balances.</p> <p>The assessment of going concern will also take into account the Council's status as a tax-raising body.</p>
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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period 1 April 2015 to 29 February 2016.

Internal Audit Update

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council to *undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*. Proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS. The PSIAS requires Internal Audit to *report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*.

1.2 Progress against the 2015/16 Internal Audit Plan

1.2.1 The Annual Internal Audit Plan (the Plan) for 2015/16 was approved by this Committee on the 7 April 2015. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2015/16 against that Plan.

1.2.2 The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the 36 items on the Plan, 29 are audits that will result in an assurance opinion. The remainder of items on the Plan relate to consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

1.2.3 At the time of reporting of the 29 audits, one was cancelled due to the area being subject to Scrutiny Review; the outcome of the review has resulted in the audit being re-scoped and carried forward to 2016/17. This was replaced by additional consultancy work assisting on benchmarking to inform the review of car parking

charges. Of the 28 remaining, final reports and agreed management action plans have been issued in respect of 11 with a further 12 complete and at draft report stage (See **[Annex 1]** for definitions of audit opinions). Five audits are currently underway and nearing completion. A summary of the current status of all audits on the 2015/16 Plan including a summary of findings where finalised, is attached to this report at **[Annex 2]**.

- 1.2.4 In accordance with the PSIAS, and to provide assurance that issues identified in audits undertaken have been addressed through agreed actions, Internal Audit follow-up implementation of all recommendations made. Up to 31 January 2016 84 outstanding recommendations were due for implementation, of these 60 have been completed, 10 have revised dates agreed (1 of which was high risk) and 4 have been superseded. The remaining 10 cannot be closed off at this time; of these we are awaiting a response from the Service for 6 and for the remaining 4 further clarification is needed. This includes instances of verbal confirmation where evidence is awaited or where the Service has queried the original recommendation due to change of circumstance, etc. Detail is provided at **[Annex 3]**. In addition, at the January Committee meeting the lack of a formal Policy on Corporate Credit Cards was queried, a Policy has been drafted and is in the process of being finalised. A further verbal update will be provided to the April meeting.

Fraud Update

1.3 Prevention and Detection of Fraud and Corruption

- 1.3.1 This section of the report provides details of the Council's activity in preventing and detecting fraud and corruption in the year 2015/16 to date.
- 1.3.2 The Council proactively takes part in the National Fraud Initiative (NFI). This is a nationwide data matching exercise, comparing computer records held by the Council against computer records held by other councils and other bodies. Where a match is found it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.
- 1.3.3 Data in relation to a Council Tax Single Person Discount matching exercise was submitted in December with results received in January and a total of 708 matches to be reviewed. To date 146 cases have been closed with no further action required, 91 are subject to further investigation and 471 are pending review.
- 1.3.4 Following the transfer of Housing Benefit Fraud investigation to the DWP proactive work in relation to preventing and detecting fraud, and managing the risk of fraud, has been enhanced. This involves a broader scope identified through an assessment of fraud risk in relation to all Council services. The Team continue to investigate allegations of fraud for the Council Tax Reduction Scheme, Discounts and Exemptions in relation to Council Tax and NNDR and other allegations

relating to TMBC services. A Plan for 2016/17 has been drafted and is presented to this meeting as part of the Annual Audit and Counter Fraud Plan under separate cover. To demonstrate TMBC's ongoing commitment to prevent and detect fraud, and to provide a framework against which to measure good practice, I have assessed our level of compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, which contains five key principles:

- Acknowledge the responsibility of the governing body for countering fraud and corruption.
- Identify the fraud and corruption risks.
- Develop an appropriate counter fraud and corruption strategy.
- Provide resources to implement the strategy.
- Take action in response to fraud and corruption.

1.3.5 Based on the above assessment I believe that TMBC's current approach to fraud and corruption complies with all of the above principles; however this is a developing function and 2016/17 will be fundamental to embedding the role of the team.

1.4 Investigating Fraud

1.4.1 The Fraud Team is responsible for investigating allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required. The Team works closely with a number of external agencies including the Department for Work and Pensions (DWP), the UK Border Agency, Kent Police and NHS Fraud to progress investigations.

1.4.2 In 2015/16 to 29 February the Investigation Team closed 294 cases; open Cases relating to Housing Benefits were passed to the DWP on 2 February. There are 10 open investigations. **[Annex 4]** summarises the results of investigations concluded in 2015/16 to date including where on 10 March 2016 David Rothwell was given a 12-month prison sentence (six months to be served in custody and six months released on licence) for defrauding the council and the DWP of approximately £110,000 due to failing to inform us that he had started work in 2004.

1.5 Legal Implications

1.5.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined as that contained within the Public

Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

- 1.5.2 The Council has a legal duty under s151 of Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.

The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.6 Financial and Value for Money Considerations

- 1.6.1 An adequate and effective Internal Audit function provides the Council with assurance on the proper, economic, efficient and effective use of Council resources in delivery of services, as well as helping to identify fraud and error that could have an adverse effect on the finances of the Council.
- 1.6.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as Protecting the Public Purse, National Fraud Initiative and Fighting Fraud Locally maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.7 Risk Assessment

- 1.7.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its internal control arrangements.
- 1.7.2 Failing to have an efficient and effective Counter Fraud function could lead to an increased level of fraud. This report, summarising the work of the Counter Fraud function, provides a key source of assurance for the Council on the adequacy and effectiveness of its counter fraud arrangements.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

Definitions of Audit Opinions

Green – Risk management operates effectively and objectives are met

Overall audit opinion: Expected controls are in place and effective to ensure risks are well managed and the service objectives are being met. Any errors found are minor or the occurrence of errors is considered to be isolated. Recommendations made are considered to be opportunities to enhance existing arrangements.

Amber – Key risks being managed to enable the key objectives to be met

Overall audit opinion: Expected key or compensating controls are in place and generally complied with ensuring significant risks are adequately managed and the service area meets its key objectives. Instances of failure to comply with controls or errors / omissions have been identified. Improvements to the control process or compliance with controls have been identified and recommendations have been made to improve this.

Red – Risk management arrangements require improvement to ensure objectives can be met

Overall audit opinion: The overall control process is weak with one or more expected key control(s) or compensating control(s) absent or there is evidence of significant non-compliance. Risk management is not considered to be effective and the service risks failing to meet its objectives, significant loss/error, fraud/impropriety or damage to reputation. Recommendations have been made to introduce new controls, improve compliance with existing controls or improve the efficiency of operations.

Recommendations made will be categorised as High, Medium or Low.

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2015-16 Internal Audit Assurance Reviews

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Cemetery Memorials	1	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – The existing memorials and grounds of the cemetery and churchyards comply with adequate health and safety standards Opinion: Green. Testing established that there are adequate inspection and monitoring regimes with some minor improvements required in documentation</p> <p>RM02 - Procedures exist for the external inspection and consequential work to be carried out with limited damage to the Council's budget and reputation Opinion: Amber. Testing established that external inspections have been carried out and improvements in condition were noted in the second inspection However there were some inconsistencies in the charging process</p> <p>RM03 - All new memorials are built to approved standards and specifications and are authorised by Cemetery staff Opinion: Amber. Testing established that although a system to authorise specifications for new standards exists there is currently no monitoring undertaken to ensure specifications have been complied with. It is accepted that the external inspection process compensates for this to some extent and no memorials failed the last inspection.</p>
IT Software and network user access	1	Draft Report		

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Payroll	1	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate controls are in place to effectively process new starters on the Council's Payroll Opinion: Green. Testing established that set up of new employees is adequately controlled and all starters in the sample tested had been set up timely and accurately</p> <p>RMO2 – Adequate controls are in place to effectively remove leavers from the Council's Payroll Opinion: Green. Testing established that the removal of leavers is adequately controlled and all leavers in the sample tested had been removed timely with final payments accurate. Two areas were identified where processes could be enhanced in relation to removal of casual workers that have not worked for a cumulative six month period and timely invoicing of early termination fees for leased cars.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Car park income	1	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RM01 - Adequate arrangements exist to ensure the regular collection of money from the Council's parking meters. Opinion: Amber. Testing did not identify any instances of missing income however audit tickets had been destroyed prior to 1st April so we are only able to give assurance on a limited time period. Cash limits on machines were exceeded in a number of instances and key security should be improved.</p> <p>RM02 - There are adequate arrangements in place to manage the Council's parking meters. Opinion: Amber. Testing established that meters were adequately managed overall; however current arrangements could be streamlined and aligned and further cashless options could be considered.</p> <p>RM03 - Income received in respect of parking is verified, recorded and banked efficiently Opinion: Amber. Testing established that income from meters is adequately controlled; however it is not currently possible to reconcile income received via the mobile payment provider.</p>
Parking Enforcement/PCNs	1	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RM01 - There are adequate procedures to monitor and recover income from Parking Enforcement Penalty Charge Notices (PCNs) Opinion: Amber. Testing established that the system automatically increases charges in line with agreed time periods and monitoring of tickets issued is undertaken which highlights any in need of further action. However, although the majority of dispensations, variations to charges and cancellations tested were appropriate limited supporting documentation and/or system reporting meant that we were unable to confirm this in all cases.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Creditors	1	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate controls to ensure that all suppliers are bona fide and all changes to supplier details are accurate and legitimate</p> <p>Opinion: Amber. Suppliers are allocated a unique reference however testing established a small number (11) of duplicate suppliers on the system. While Exchequer process change of bank details for suppliers and advised that checks are undertaken no evidence of those checks is retained and a report of all changes to bank details from the system for independent validation is not available.</p> <p>RMO2 – Orders are raised in advance, are authorised and within the budget limits of both the service and the authorised budget of the signatory</p> <p>Opinion: Amber. Of a sample of 30 invoices tested 14 required an order to be raised in advance according to the categories set in Financial Procedure Rules, of these 9 did not have an order raised in advance, however all had been appropriately authorised.</p> <p>RMO3 Invoices are only processed for payment that are legitimate and after the goods and/or services have been received</p> <p>Opinion: Green. Adequate controls exist to ensure all invoices are appropriately authorised and that goods and/or services had been received. There is a robust process for identifying and addressing any errors prior to payment.</p> <p>RMO4 There are adequate controls to ensure that payments made are accurate, complete, timely and processed only once</p> <p>Opinion: Green. Adequate controls exist to ensure that payments processed are accurate, complete and timely. No duplicate payments were identified.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Corporate Credit Cards	2	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RM01 - Policy and processes for the issue, usage, security and return of Corporate Credit Cards are adequate.</p> <p>Opinion: Amber. There is no formal policy on who cards will be issued to and why, although all were appropriately authorised. Testing established some instances where cards were not held securely or were used by individuals other than the card holder.</p> <p>RM02 - Corporate Credit Cards are being used in line with policy.</p> <p>Opinion: Amber. Testing established that authority in relation to individual purchases is retrospective and therefore adds little in terms of control. Guidance does not make clear that purchases should not be spit to circumvent limits and one instance was identified where this had happened. However, no inappropriate spend was identified.</p> <p>RM03 - : Exchequer procedures to process Corporate Credit Cards are appropriate and followed in practice.</p> <p>Opinion: Green. Testing established that all purchases were supported by an authorised form and were correctly allocated against budget codes. There is potential to streamline the process through introduction of a monthly form rather than one per transaction.</p>
Homelessness	2	Draft Report		
Insurance	2	Draft Report		

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Expenses claims	2	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate policies and procedures in place for the reimbursement of staff travel and subsistence claims. Opinion: Green. Testing established that there are a variety of guidance documents and claim forms; while comprehensive some updating to ensure consistency was required.</p> <p>RM02 - Claims are verified, processed and paid correctly and appropriately. Opinion: Green. Testing established that all claims were appropriately authorised and correctly paid. Where roles require multiple location visits the level of information on claim forms could be improved to assist verification.</p>
Complaints handling	2	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate arrangements in place for complaints handling Opinion: Amber: Testing established that there are adequate arrangements for complaints to be made and those complaints tested had been responded to reasonably. No complaints escalated to the Ombudsman had been upheld. However there was a lack of consistency in recording and in the information provided in response to complaints on how to escalate if dissatisfied; we acknowledge that a new computerised system is currently being implemented which should address this issue as well as providing the opportunity to enhance monitoring.</p>
Property management	2	Draft Report		

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Housing register and allocations	2	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are policies, procedures and guidance notes in place that are easily accessible and have been appropriately approved</p> <p>Opinion: Green. Policy, procedure and guidance are all up to date, appropriately approved and easily accessible, including use of the website and hard copies on request.</p> <p>RMO2 – Criteria are correctly applied and eligible applicants are assessed appropriately.</p> <p>Opinion: Green. Testing established that robust controls exist to ensure criteria are correctly applied and assessments are appropriate. Recommendations in relation to retrospective fair processing notices, declarations of non-interest, documenting checks and additional detail in letters to applicants were made to further enhance this.</p> <p>RMO3 - The review process to appeal decisions is followed correctly, is transparent, and well publicised</p> <p>Opinion: Green. Testing established that robust controls exist to ensure the appeals process is correctly followed and applicants informed of outcomes. Where original decisions are overturned these were due to additional evidence or change of circumstances rather than error. Again some recommendations were made to further enhance this including consistent recording of detail on applicants files and additional detail in letters to applicants.</p>
Refuse and Recycling contract monitoring	3	Draft Report		
Youth and Play Development	3	Cancelled	N/a	<i>Cancelled due to the recommendations of the Scrutiny Review Group and changes to service provision. This audit was replaced by consultancy work consisting of benchmarking to support the review of car parking charges</i>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Environmental protection	3	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Investigations into Statutory Nuisance Complaints re processed effectively, efficiently and economically. Opinion: Green. Testing established that processes for and methods to investigate complaints are effective, efficient and economical. Minor efficiency recommendations were made including emailing correspondence to save on costs and recording and obtaining signatures for equipment loaned to demonstrate return.</p> <p>RMO2 – Statutory Nuisance Complaints are processed timely and key stakeholders are informed of each stage appropriately. Opinion: Green. Testing established that complaints are responded to timely and stakeholders kept informed in line with the council's guidelines, however recording detail of investigations varied and could be improved.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Tonbridge Castle Facilities Hire	3	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Policy and processes for the hiring of Tonbridge Castle are adequate.</p> <p>Opinion: Amber. Policies and procedures, including fees, are adequate for the current level of bookings but further detail in relation to cancelled events and rationale for charges compared to other venues could be enhanced, particularly if the level of bookings, and therefore financial materiality, increased. Risk assessments for hire of facilities need to be completed.</p> <p>RMO2 – Financial arrangements, including complimentary use of the facilities, are adequate and followed in practice.</p> <p>Opinion: Green. Testing established that payments are received in advance for weddings and for all events concessionary rates are applied appropriately. Charges were accurate however for invoices raised after the event (for example corporate bookings or educational visits) the Castle are not informed whether payment has been received and could take subsequent bookings from customers with outstanding debts.</p> <p>RMO3 – Opportunities for development are identified to maximise the potential for income generation and community development.</p> <p>Opinion: Green. Efficient utilisation of office space is currently being considered and a report had been commissioned which made recommendations aimed at improving visitor and event level, customer feedback is also monitored. Consideration could be given to methods for marketing the venue for events should the council wish to increase income but this would need to be considered in line with any impact on other visitors.</p>
Contingency Planning & Disaster Recovery	3	Draft Report		
Building Control	3	Draft Report		
Members' Allowances	3	Draft Report		

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Sickness Absence Monitoring	4	Draft Report		
Housing Benefit Assessments	4	In progress		
Section 106 Arrangements	4	Draft Report		
Community Safety Partnership	4	In progress		
Licensing Functions	4	In progress		
Corporate Policy Maintenance	4	In progress		
Empty Properties	4	Draft report		
IT Helpdesk	4	In progress		
Data Protection	4	Draft Report		

2014-15 Internal Audit Assurance Reviews completed in 2015/16

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Cemeteries	4	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are procedures in place to effectively and efficiently perform the statutory duties required as a local authority and as the owner of a burial ground Opinion: Amber. Testing established that procedures are adequate and effective in the main, including in relation to Public Health funerals. However, confirmation is required to ensure current arrangements for recording burials electronically comply with all legislative requirements in relation to registers and public access to the same.</p> <p>RMO2 – There are procedures in place to effectively administer and perform the services provided by Tonbridge Cemetery Opinion: Green. Testing confirmed that there are appropriate processes in place for services provided and these are performed timely and appropriately with good practice recommendations made in relation to future planning and information on TMBC's website.</p> <p>RMO3 – There are procedures in place to correctly and effectively collect the Cemetery Service Charges Opinion: Green. Testing established that relevant charges are identified and collected. One area for consideration was raised in relation to review of charges for historic searches.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Standards of Officer Conduct	2	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – The Authority has appropriate policies in place relating to standards of Officer conduct.</p> <p>Opinion: Amber. Testing established that overall there is a comprehensive suite of policies and procedures however there is a need to review the same to ensure that the most recent versions are accessible and the code of conduct is up to date.</p> <p>RMO2 – Arrangements are in place to uphold standards of officer conduct.</p> <p>Opinion: Amber. There is a need to ensure that new staff are required to read key/core policies and that all staff periodically receive core/key policies as a reminder.</p>

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
Finance	Council Tax DDE	Ensure all the application forms and information online provide consistent information on the timescale required for changes of circumstance to be notified to the Council.	Medium	10/09/2015	Complete	
Finance	Council Tax DDE	Review current practices in line with the minimum standards suggested in the MOU.	High	10/12/2015	Complete	
Finance	Council Tax DDE	Consider providing staff with training on fraud prevention and the identification of fraudulent documents.	Low	10/12/2015	In progress	30/09/2016
Finance	Council Tax DDE	Remind staff that discounts that fall out outside of the scope of Regulation 15 of the Council Tax (Administration and Enforcement) Regulations 1992 must have recorded evidence before they are applied.	Medium	10/12/2015	Complete	
Finance	Income Collection - Web and Telephone	Exchequer Services should liaise with the Land Charges Manager in order to provide an online payment facility for the service	Low	31/07/2015	Complete	
Central	Audit Follow Up - Recruitment Vetting	Ensure that a full review of all posts against DBS requirements is carried out appropriately	Medium	01/09/2015	Awaiting Response	
Finance	Direct Debit / Standing Order	Remove or replace the out of date How to Pay.pdf http://finance.tmbc.gov.uk/assets/SLS/HowtoPay_pmd_v2.pdf	Low	30/06/2015	Complete	
Finance	Direct Debit / Standing Order	The Principal Revenues Officer should conduct a sweep of the suspense account to write on any unidentified payments older than six years (prior to 31st March 2009) and repeat annually to avoid funds remaining on the suspense account indefinitely.	Medium	30/06/2015		31/03/2016
Central	Audit Follow Up - Mobile Phones	The TMBC Mobile Phones Policy should be drafted with mention being made to the Unified Communications System and the impact mobiles have on the Emergency Plan.	High	31/07/2015	Awaiting clarification	
Finance	VAT	Introduce arrangements to monitor credit notes or refunds for lease vehicles returned as early termination.	Low	31/05/2015	Complete	
Finance	VAT	Consult the Council's Data Protection Officer on the risk of retaining personal data for longer than required on the Purchase Ledger; and take any action warranted.	Low	30/11/2015		30/04/2016
Finance	VAT	Perform follow up checks to ensure that World Pay is not being entered as EU when they are supplying a GB VAT registration number	Low	31/05/2015	Complete	
Finance	VAT	Obtain advice from the Council's VAT advisory service, LAVAT, on how to handle incorrect invoices received.	Low	31/07/2015		30/04/2016
Finance	VAT	Send a guidance note to relevant staff reminding them of the importance of being able to reclaim VAT and what is required for the Council to be able to do this, especially in the case of Credit Card transactions. At the same time include details of all information required to appear on Credit Notes.	Low	30/09/2015	Complete	
Finance	VAT	Amend mileage claim and VAT spreadsheets, using conditional formatting to highlight potential anomalies.	Low	30/06/2015	Complete	
Street Scene	Car Park Income	Improve key security so that only approved staff has access to cash machine keys	Medium	31/07/2015	Complete	
Street Scene	Car Park Income	The Parking Manager should liaise with IT and/or Park Mobile to discover the root cause of the reporting issue and find a way to utilise the reporting functions to be able to reconcile usage against income.	High	31/08/2015	Complete	
Street Scene	Car Park Income	Parking should commission an audit of Park Mobile to gain assurance that their systems correctly calculate monies due to the Council.	High	31/10/2015		31/03/2017
Street Scene	Car Park Income	Reconcile parking refund reports with the invoices received and bring a consistent approach on whether ticket stubs are verified or not for all management companies.	Medium	31/07/2015	Complete	
Street Scene	Car Park Income	Retain audit tickets and other parking related documentation in line with the Council's document retention policy and ensure that duplicate audit tickets are obtained where they have not been produced by the machine or have been lost.	Medium	31/07/2015	Complete	
Street Scene	Car Park Income	Leisure Services should seek advice from the Council's legal team with regards to signage at country parks indicating that funds from parking are used to fund other services. If required the wording should be removed or amended.	Medium	30/09/2015	In progress	30/04/2016
Street Scene	Car Park Income	Transfer responsibility for leisure Services parking to the Parking Team to avoid duplication of work and provide a consistent approach.	Medium	31/12/2015	Awaiting Response	
Street Scene	Car Park Income	Rationalise team functions between field staff and administrative staff.	Medium	31/12/2015	Awaiting Response	
Central	Audit Follow Up - Mobile Phones	The spreadsheet maintained by Central Services Administration to aide coding of mobile telephone bills should be updated to reflect current users.	Medium	Original 31/07/2015 Revised 30/09/2015	Superseded	
Central	Maintaining High Standards of Officer Conduct	Review the suite of policies published in the Personnel Reference Manual to ensure they are up to date and reflective of the current Council's rules, principles and leadership. Make the most recently approved versions available on the TMBC website where appropriate.	High	09/11/2015	Complete	
Central	Maintaining High Standards of Officer Conduct	Amend the Declaration of Interest form for Users of Revenue & Benefits Data to include an option to declare 'no interest' and that this is completed by all relevant officers in accordance with the Annual Governance Statement	Medium	01/09/2015	Complete	
Finance	Write Offs	Service reports of write offs to be approved by Director of Finance should evidence approval at service manager level.	Medium	10/09/2015	Awaiting Response	
Central	Maintaining High Standards of Officer Conduct	Review and update the Code of Conduct to reflect current best practice guidance and subsequent significant legislation	Medium	07/08/2015	Complete	

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
Street Scene	Parking Enforcement / PCN	Ensure that system notes are updated on Parking Gateway to explain any variations from standard processing of penalty charge notices.	Medium	30/09/2015	Complete	
Street Scene	Parking Enforcement / PCN	Create a level of access between Default/Parking Attendant and Supervisor so that the Senior and Supervising CEOs can perform the tasks required of their role, but removes the possibility of cancelling a PCN; and/or implement a suitable monitoring regime.	Medium	30/11/2015	Complete	
Street Scene	Parking Enforcement / PCN	Conduct a review of user access, ensuring that terminated employees are deactivated and that active users have the correct level of access.	Medium	30/11/2015	Complete	
Street Scene	Parking Enforcement / PCN	Discussions should take place with debt collection agencies used to look at sensible repayment agreements, which may include paying the Council larger sums less often to reduce administrative time processing payments.	Low	30/09/2015	Complete	
Street Scene	Parking Enforcement / PCN	Application forms for dispensations should be obtained and scanned in all circumstances and where a chargeable dispensation is given free of charge notes to should added to give reasons for discretion.	High	30/09/2015	Complete	
Finance	Procurement	When procurement documents are next amended ensure that dates of publication, amendment or review are included in a logical place within the document; this should apply to all relevant documentation, not just the Procurement Strategy and Buyer's Guide. ('as and when', check in September)	Low	30/09/2015	Complete	
Finance	Procurement	Either amend/remove the wording of the Procurement Strategy (15.1/15.2) about performing a skills audit or perform an ongoing skills audit/review.	Low	30/06/2015	Complete	
Finance	Procurement	Amend the Procurement Checklist to give job titles rather the officer names.	Low	30/09/2015	Complete	
Finance	Procurement	When the Procurement Strategy and/or Buyers Guide are updated following the introduction of the new regulations consideration should be given to both CIPFA's Strategy Outputs which are key areas that should be referenced in an all-encompassing strategy document or in standalone but linked documents, and also the National Procurement Strategy.	Medium	30/09/2015	Complete	
Finance	Procurement	The contract with BPS Chartered Surveyors should be reviewed; if it is felt that they still offer best value for money for the Council then a waiver should be obtained from the Statutory Officers every 3 to 5 years by presenting an appropriate business case. If it is felt that they no longer offer best value, or are unsure of this, then three written quotes should be obtained as per the current Contract Procedure Rules.	Low	Original 30/06/2015 Revised 15/09/15	Complete	
Finance	Procurement	Staff should be reminded that original contract documents should be passed to Legal Services for retention in a secure fire-proof location. (Directors to cascade via SMT)	Medium	31/08/2015	In progress	30/04/2016
Street Scene	Tonbridge Cemetery Services	Confirm the Council's electronic-only storage meets the legal requirement to hold a Register of Burials.	High	09/11/2015	Awaiting Response	
Street Scene	Tonbridge Cemetery Services	Introduce procedures to serve customers requesting to view the Registers of Burial under Article 11 of the Local Authorities Cemeteries Order 1977, including access to information only stored on the BACAS system.	High	09/11/2015	Awaiting clarification	
Central	Personal and Premises Licences	Review the report of all premises which appear not to have a premises licence on Uniform.	Medium	01/08/2014	Complete	
P, H & EH	Housing and Financial Assistance	Introduce arrangements for Finance to contact Housing when recovering / considering write-offs relating to Housing financial assistance to make best use of the relationship Housing have with their customers.	Medium	31/07/2015	Complete	
P, H & EH	Housing and Financial Assistance	Amend the application form to state any relationship with, rather than just related to, a Council Member or Officer and instigate the requirement for case officers to declare non-interest as well as interest on each case they handle.	Low	30/06/2015	Complete	
P, H & EH	Housing and Financial Assistance	Finalise the draft Anti-Fraud policy and Fraud Prevention appendix.	Low	01/09/2015	Superseded	
P, H & EH	Housing and Financial Assistance	Continue to promote the use of insurance, Discretionary Housing Payments and rent deposit bonds as these are lower risk to the Council than cash rent deposit advances. (listed as ongoing, check in September)	Medium	30/09/2015	Complete	
P, H & EH	Housing and Financial Assistance	Consider the option of supplying the Landlord Packs in electronic format. A CD-ROM or small USB stick is often cheaper than printed material. A printed pack should still be available for landlords who may not have access to computer.	Low	30/09/2015	Complete	
P, H & EH	Housing and Financial Assistance	Document reasons for any exceptions made to the application process, or awards made, along with approval from higher level management where appropriate. (listed as ongoing, check in September)	Medium	30/09/2015	Complete	
P, H & EH	Housing and Financial Assistance	Retain electronic or hard copies of all confirmation replies from other interested Council teams when checking for outstanding debt or fraud investigation. (listed as ongoing, check in September)	Low	30/09/2015	Complete	
P, H & EH	Housing and Financial Assistance	Be consistent in the use of I/We in all agreements, particularly where there is a joint application or joint landlords	Low	30/09/2015	Complete	
P, H & EH	Housing and Financial Assistance	As advances can be repaid over a period of 6-12 months, and be extended further, consider using a 'rolling spreadsheet' rather than annual spreadsheet to better monitor cases which cross over years.	Low	30/09/2015	Complete	

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
P, H & EH	Housing and Financial Assistance	Improve and streamline the customer experience when applying for Housing Financial Assistance and / or Discretionary Housing Payments; consider amending the Housing financial assistance application form to include a section for eligible applicants are able to request Discretionary Housing Payment where applicable, and instigate a joined-up approach where the teams share information to conduct one set of checks and source of client contact.	Medium	31/10/2015	In progress	30/04/2016
Central	Complaints Handling	Include reports, with an appropriate level of detail, on complaints and resolutions as a standing agenda item at service level team meetings, departmental team meetings and management team meetings to give an overview of complaints within the Council and as an early indicator of possible escalations.	Medium	31/07/2015	Complete	
Central	Complaints Handling	Use the implementation of the new complaints handling system to perform a review of both the Corporate Complaints Policy and Procedure in line with LGO guidance	Medium	30/09/2015	In progress	30/11/2016
Central	Complaints Handling	Ensure all relevant employees are aware of the complaints procedures and requirements, including a complainant's right to escalate their complaint	Medium	30/09/2015	Awaiting clarification	
Central	Complaints Handling	Either expand the racial incidents section of the complaints form (or equivalent under the new system) to include complaints about any form of discrimination by the Council, or remove the section as all complaints and allegations should be investigated fully	Low	30/09/2015	In progress	30/11/2016
Central	Complaints Handling	Update as part of the complaints review, the Council's policy and procedures on compensation arising from complaints, ensuring that doing so complies with any requirements for Committee approval	Medium	30/11/2015	Awaiting clarification	
Central	Personal and Premises Licences	Investigations should be carried out to establish the rateable value of the Olive Stores to ensure the correct application fee has been levied.	Medium	01/10/2014	Complete	
Central	Personal and Premises Licences	Ensure that a Disclosure of Convictions and Declaration Form is received and stored on file for all applications prior to a personal licence being awarded	Medium	01/11/2014	Complete	
Street Scene	Grounds Maintenance	Ensure all payments for the 2015-2019 Grounds Maintenance Contract are made to the correct finance code for the Contractor.	High	31/05/2015	Complete	
Street Scene	Grounds Maintenance	Ensure that the Contractor is consistently referred to as Landscape Services.	Low	31/05/2015	Complete	
Street Scene	Grounds Maintenance	Increase the number of ad-hoc Health and Safety inspections to one a month during the off-peak season to three or four during peak periods.	Medium	30/06/2015	Complete	
Street Scene	Grounds Maintenance	Expand the scope of the inspection form to include comment on quality of work and other relevant areas. This could be as simple as a text box for other comments.	Low	30/06/2015	Complete	
Street Scene	Grounds Maintenance	Ensure inspection forms are promptly filed; consider scanning forms if the handwritten version is legible (avoiding time required to type up forms) or seek to introduce mobile technology	Low	30/06/2015	Complete	
Street Scene	Grounds Maintenance	Implement monitoring arrangements to keep a track of all health and safety inspections, Playground inspections and well any issues found in the course of routine work. It is suggested this could be through a simple spreadsheet showing date of inspection, name of inspector, inspection type, result, comments, follow up action, resolution.	Medium	30/06/2015	Complete	
Street Scene	Grounds Maintenance	Review the Health and Safety Monitoring Note and amend following consultation with the Health and Safety Officer, taking account of the comments and suggestions made in point 4.16 of this report.	Low	30/09/2015	Complete	
Central	Personal and Premises Licences	Ensure that the receipts screen on Uniform is appropriately updated when payments are received	High	01/11/2014	Complete	
Central	Personal and Premises Licences	Ensure that when applications are received, the rateable value is checked against the Valuation Office Agency Website	Low	01/11/2014	Complete	
Central	Personal and Premises Licences	Ensure that the case reference or surname is used as a narrative for all payments on Integra for ease of reference.	Medium	01/11/2014	Complete	
Central	Personal and Premises Licences	Ensure that the appropriate licensing enforcement policy is agreed by members	High	30/09/2014	Superseded	
Central	Personal and Premises Licences	Update the licensing enforcement policy to include reference to the different level of fees that can be charged by a Magistrates Court using the Standard Scale of Fines within the Criminal Justice Act 1982. This information should also be available on the website.	Medium	30/09/2014	Superseded	
Central	Personal and Premises Licences	Information should be provided on the councils website on how to contact the council regarding licence breaches	Low	30/09/2015	Complete	
Street Scene	Leisure Trust Contract	In the interests of Business Continuity, and given that staff from several teams have input into the monitoring of Leisure Trust contract, an organogram should be compiled and maintained that details which Council officers have input and their responsibilities; if possible include their TMLT counterparts.	Low	31/08/2015	Complete	
Street Scene	Leisure Trust Contract	Improve the structure and consistency of the electronic filing of all relevant documentation on a shared drive folder with access available to all relevant staff, including copies of files received from support and maintenance services.	Low	31/08/2015	Complete	
Street Scene	Leisure Trust Contract	Periodically monitor uptake of each of the available schemes to ensure that all sectors of the community are taking advantage of the facilities.	Low	31/10/2015	Awaiting Response	

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
Street Scene	Leisure Trust Contract	Create and use site visit forms which details what should be checked on each visit, using a risk based approach so that all required checks are performed at each premises throughout the year, plus room for comments and action points.	High	31/07/2015	Complete	
Street Scene	Leisure Trust Contract	Create and use a matrix detailing what checks and meetings are required throughout the course of the year, so that any deficiencies in monitoring or receipt of reports, meetings or other functions can be identified and rectified or explained.	High	31/07/2015	Complete	
Street Scene	Leisure Trust Contract	Conduct a review of the Management Agreement and other relevant agreements to identify all aspects which require monitoring and perform a risk based analysis to decide how often each aspect should be checked. This should form the basis of the Site Inspection Form, a monitoring matrix, identify whether any aspects are not being discussed at review or strategic meetings, and help ensure that all monitoring is relevant and proportionate to the Council's needs.	High	31/07/2015	Complete	
Finance	Corporate Credit Cards	Introduce a basic internal card holder request form for Corporate Credit Cards, and retain on file. It should include the name, job title and service of the applicant, the business case including proposed limits, Service Director's comments approval and Director for Finance and Transformation's (or delegated officer's) comments and approval. A section should be included to request changes in limits which should also be approved by the Director of Finance and Transformation or delegated officer. This could be an e-Form.	Low	30/11/2015	Complete	
Finance	Corporate Credit Cards	Authorisation for cards to be issued and any amendments should be by the Director of Finance and Transformation, or delegated officer. Changes and authorisation should not be authorised by a less senior officer and therefore amendments to the Director of Finance and Transformation's card should be authorised by the Chief Executive	Medium	30/11/2015	Complete	
Finance	Corporate Credit Cards	Amend the User Agreement and Guidance Notes to refer to each other and: 1. include a prohibition of splitting purchases to circumvent transactional limits 2. correct the contact telephone number for the Exchequer Services Manager 3. include a number for the Bank to report in the case of loss or misuse 4. clarify whether the card can be taken off-site and security arrangements 5. update to include guidance on using the card online 6. and replace names with job titles, or both Send out amended guidance to all card holders	Medium	31/12/2015	Complete	
Finance	Corporate Credit Cards	All card holders and budget holders should be informed that, as per the user agreement, Corporate Credit Cards are personal issue and therefore must only to be used by the card holder. If there are insufficient cards in a service area, a business case should be put forward for additional card holders. Consideration should be given to taking appropriate action where cards have been used by non-card holders	High	31/12/2015	Complete	
Finance	Payroll	Termination Forms should be completed for casual staff who have not worked /submitted a time sheet for 6 months or more.	Low	31/08/2015	Complete	
Finance	Payroll	Personnel should instigate procedures to ensure that payments for early termination fees on lease cars are reclaimed promptly.	Medium	31/07/2015	Complete	

Fraud type	Cases closed	No evidence of fraud	Customer Error or Incorrect benefit/ discount	Passed to DWP	Fraud proven	Reduction in benefit*	Total overpayments	Increase in liability*
Housing	3	2	0	0	1	N/A	N/A	N/A
Council Tax Reduction only	6	4	0	2	0	0	0	0
Housing Benefits only	20	7	7	4	2	Incorporated below	£17,659.63	N/A
Housing Benefits and Council Tax Reduction	196	110	16	58	12	£4,064.65	£145,901.45	£534.49
Council Tax Discounts and Exemptions only	69	36	33	0	0	N/A	£16,506.75	£15,718.91
	294	159	56	64	15	£4,064.65	£180,067.83	£16,253.40

For cases where fraud was proven sanctions were as follows:

9 Cautions

4 Administrative penalty totalling £5,648.24

2 Criminal Prosecution, all of which resulted in successful convictions

In addition 24 Fixed Penalties were issued in relation to Council Tax Discounts or Exemptions totalling £1,680 (fully retained by TMBC)

*Annual figures

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT CERTIFICATION WORK 2014/15

This report summarises the outcomes from certification work carried out by Grant Thornton, our external auditors, for 2014/15.

1.1 Certification Report 2014-15

1.1.1 Grant Thornton is required to certify certain claims and returns submitted by Tonbridge and Malling Borough Council. Auditors are required to report the outcomes of certification work to those charged with governance which for this purpose is the Audit Committee.

1.1.2 In 2014/15 only one claim required auditor certification at Tonbridge and Malling Borough Council, the Council's claim for Housing Benefit Subsidy, based on total expenditure of £36.1 million. From 1 April 2015 arrangements for the certification of claims for housing benefit subsidy are prescribed by Public Sector Audit Appointments (PSAA).

1.1.3 Key messages taken from the Certification Report 2014/15 are:

- The Council's draft and final audited claims for Housing Benefit Subsidy were submitted within the deadline specified by the DWP.
- Officers provided clear working paper trails to support the draft claim.
- Officers had taken appropriate action to implement the agreed recommendations arising from the 2013/14 certification work.
- A number of amendments were agreed to the draft claim prior to certification. The aggregate impact was to increase the amount of subsidy claimed by £3,755 and one issue was reported to DWP using a qualification letter.

1.1.4 A copy of the Certification Report 2014/15 is attached at **[Annex 1]**. PSAA asked auditors to share the report with those charged with governance by 26 February

2016 and a copy of the report was duly circulated to Members of the Audit Committee in early February.

1.2 Legal Implications

- 1.2.1 Auditors are required to report the outcome of certification work to those charged with governance.

1.3 Financial and Value for Money Considerations

- 1.3.1 The indicative scale fee for certification work was £21,600, but as the certification work required for 2014/15 has reduced compared with 2012/13 on which the indicative fee is based, Grant Thornton proposed a final fee of £18,600.

1.4 Risk Assessment

- 1.4.1 Where recommendations are made as a result of certification work they are shared and subsequent actions agreed with officers.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

Certification report 2014/15 for Tonbridge & Malling Borough Council

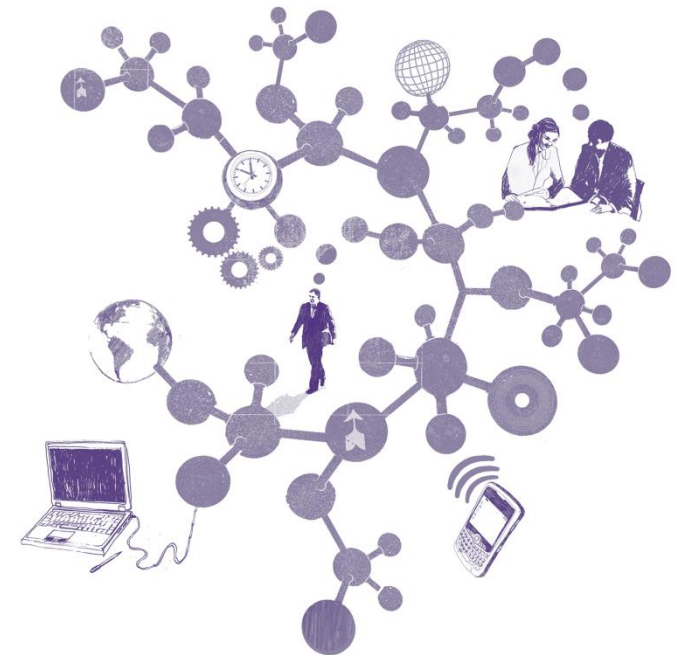
Year ended 31 March 2015

January 2016

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Section 1: Summary of findings

01. Summary of findings

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Summary of findings

Introduction

We are required to certify certain claims and returns submitted by Tonbridge & Malling Borough Council ('the Council'). Auditor certification is an important part of the process to confirm the Council's entitlement to funding.

This report summarises the outcomes from our certification work for 2014/15.

Approach and context to certification

Prior to its abolition on 31 March 2015 certification arrangements were prescribed by the Audit Commission. Under these arrangements the Audit Commission agreed the scope of work with the relevant government department or agency and issued auditors with a Certification Instruction (CI) for each claim or return.

In 2014/15 only one claim required auditor certification at Tonbridge & Malling BC, the Council's claim for Housing Benefit Subsidy, based on total expenditure (benefit granted) of £36.1m.

From 1 April 2015 arrangements for the certification of claims for housing benefit subsidy are prescribed by Public Sector Audit Appointments (PSAA).

Auditors are required to report the outcomes of certification work to those charged with governance.

Key messages

The Council's draft and final audited claims for Housing Benefit Subsidy were submitted within the deadlines specified by the Department for Work and Pensions (DWP).

Officers provided clear working paper trails to support the draft claim. Additional working papers were provided to support detailed audit testing.

Officers had taken appropriate action to implement the agreed recommendations arising from our 2013/14 certification work.

A number of amendments were agreed to the draft claim prior to certification. The aggregate impact was to increase the amount of subsidy claimed by £3,755. We reported one other issue to DWP in a qualification letter. Further information on the outcomes from our certification work is provided at Appendix A.

Certification fees

The Audit Commission sets an indicative scale fee for certification work at each audited body. For the Council the 2014/15 indicative scale fee for the housing benefit subsidy claim reported in our audit plan of March 2015 was £21,600.

The indicative certification fee for 2014/15 is based on the final 2012/13 fee for work on the housing benefit subsidy claim, reflecting the amount of work required to certify the claim in that year. However, the certification work required at the Council for 2014/15 has reduced compared with 2012/13.

We are therefore proposing a final fee for our 2014/15 certification work of £18,900. Our proposed fee is subject to approval by PSAA, who are required to approve all variations to the scale fee.

Further information on our certification fee is included at Appendix B.

The way forward

We set out recommendations arising from our certification work at Appendix C.

Acknowledgements

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation with our 2014/15 certification work.

Grant Thornton UK LLP
January 2016

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Appendices

Appendix A: Details of claims and returns certified for 2014/15

Claim or return	Comments
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 101</p> <p>Housing benefit subsidy claim</p>	<p>Overall approach</p> <p>The Audit Commission/PSAA certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Two initial samples are tested (all transactions in year)</p> <ul style="list-style-type: none"> - 20 rent allowance cases - 20 rent rebate (tenants of non-HRA properties) cases <p>Where errors are identified then additional testing is performed (either on a further sample of 40 cases, or on all relevant cases, depending on the number of cases where the error could have occurred) for the issue giving rise to the error.</p> <p>Under the Audit Commission/PSAA framework auditors are also required to perform sample testing to cover previous year issues and confirm that these do not affect the current year's claim.</p> <p>Where the impact of errors can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then the issue is reported to DWP using a qualification letter.</p> <p>Previous year issues</p> <p>For homeless claimants the Council's Housing department effectively acts as "landlord" and funds are transferred from the benefit section. Our work in 2013/14 identified that a number of overpayments in these cases had been treated incorrectly. For 2014/15 the Council reviewed all overpayments for homeless claimants and actioned amendments to ensure overpayments were correctly treated before preparing the draft subsidy claim. Officers concluded that there were no non-HRA overpayments which were eligible for subsidy.</p> <p>Our work on the Council's 2013/14 subsidy claim identified a number of rent allowance cases where self-employed income had been wrongly calculated. This required additional certification work in 2014/15.</p>

Appendix A: Details of claims and returns certified for 2014/15

Claim or return	Comments
Housing benefit subsidy claim Page 102	<p>Outcomes from 2014/15 testing: Rent allowances</p> <p>Our initial testing of 20 rent allowance cases identified one case where self-employed income had been wrongly calculated. As additional testing on the calculation of self-employed income was already required in respect of previous year issues, this error did not lead to additional testing.</p> <p>To address previous year issues the calculation of self-employed income was tested for an additional sample of 40 cases. This testing identified;</p> <ul style="list-style-type: none"> • nine further errors leading to an underpayment of benefit (total value £1,384). Where testing identifies that benefit has been underpaid there is no impact on subsidy as subsidy cannot be claimed on benefit that has not been awarded. • five errors where there was no impact on benefit • one error resulting in an overpayment of benefit of £244. <p>The potential impact on subsidy was extrapolated and reported to DWP using a qualification letter. The net impact extrapolated for subsidy purposes was to move £4596 from a claim cell paying full subsidy to a cell paying nil subsidy.</p>

Appendix B: Fees

Claim or return	2013/14 fee	2014/15 indicative fee	2014/15 actual fee	Variance with indicative fee	Explanation for significant variances
	£	£	£	£	
Housing benefits subsidy claim	24,112	21,600	18,600	(3000)	The indicative certification fee for 2014/15 was based on the work required in 2012/13. The certification work required at the Council for 2014/15 has reduced compared with 2012/13.
Total	24,112	21,600	18,600	(3000)	

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Appendix C: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Housing and council tax benefit subsidy scheme			
1	Officers should consider the errors identified from certification testing and take action on any training or supervisory issues to help reduce errors in future years.	Medium	Specific training has taken place relating to the issues identified. New staff to the section since the training took place have had the topics rolled into their training. A rolling review of cases potentially affected is underway.	Ongoing. Principal Benefits Officer
2	Benefit records for individual claimants should be amended in the current year for all errors identified from 2014/15 certification testing.	Medium	Agreed.	By 15.2.16. Principal Benefits Officer

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

05 April 2016

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON – PROGRESS REPORT AND UPDATE AND AUDIT PLAN

This report introduces two papers from our external auditors. The two papers are a Progress Report and Update and Audit Plan for the year ending 31 March 2016.

1.1 Progress Report and Update

1.1.1 This paper provides the Audit Committee with a report on progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to this Council. The paper can be found at **[Annex 1]**.

1.2 Audit Plan 2015/16

1.2.1 Our external auditors are required to prepare an Audit Plan setting out the proposed approach to the audit of the Council's financial statements. The paper identifies a number of risks which the external auditors will consider as part of the audit, none of which are specific to this Council, but applicable to local authorities more generally; and no issues have arisen from their interim work to date which I need to draw to your attention. On the VFM conclusion work, the area of focus will be on the Council's financial position.

1.2.2 The paper can be found at **[Annex 2]**.

1.3 Legal Implications

1.3.1 As set out in the documents.

1.4 Financial and Value for Money Considerations

1.4.1 As set out in the documents.

1.5 Risk Assessment

1.5.1 As set out in the documents.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

Audit Committee
Tonbridge & Malling Borough Council
Progress Report and Update
Year ended 31 March 2016

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March 2016

Sarah Ironmonger

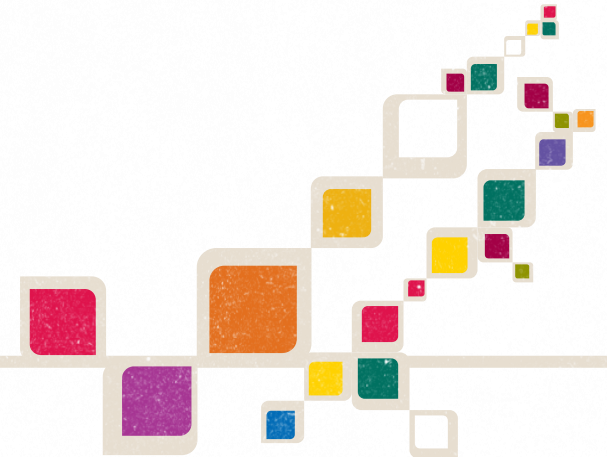
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any 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.



Introduction

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

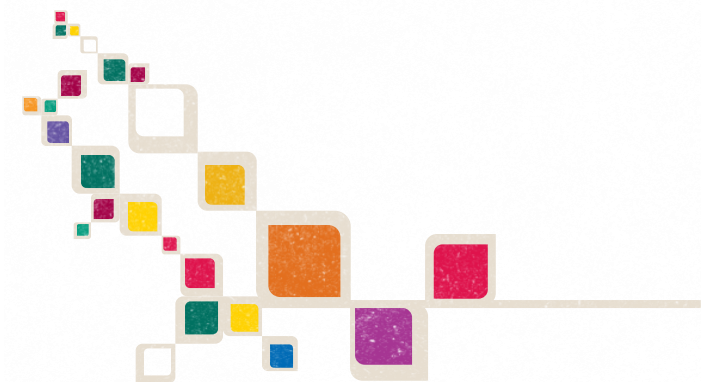
The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Page 111 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 at www.grant-thornton.co.uk/en/Services/Public-Sector/ and where you can also download copies of our publications.

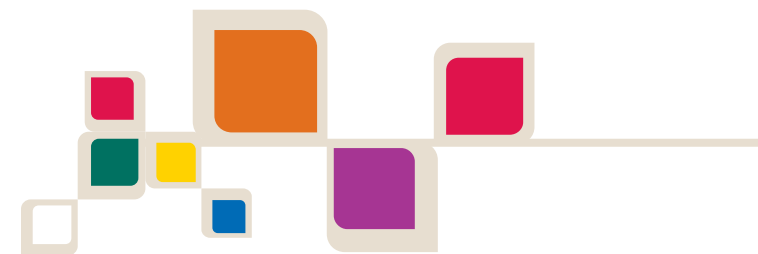
111 If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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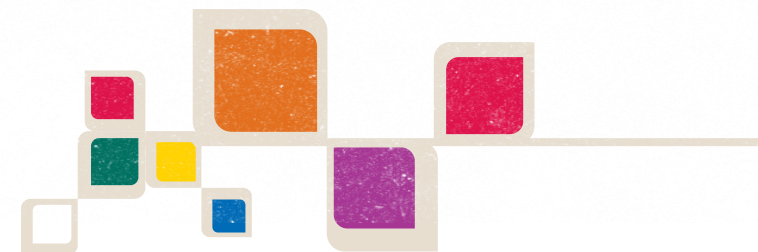


Progress at March 2016



2015/16 work	Planned Date	Complete?	Comments
<p>Interim accounts audit</p> <p>Our interim work will include:</p> <ul style="list-style-type: none"> • work to understand the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing • early work on any emerging accounting issues. 	February – March	In progress	Our interim audit work is currently in progress.
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p>	March	Complete	
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	July	July start date	

Progress at March 2016



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2015/16 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>Work to reach a conclusion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>The National Audit Office (NAO) has issued revised guidance to auditors on the work required to conclude if audited bodies have proper arrangements in place to secure economy, efficiency and effectiveness in their use of resources. This guidance applies for 2015/16 and is available at https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/</p> <p>Auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The guidance also identifies sub-criteria intended to guide auditors in reaching their overall conclusion:</p> <ul style="list-style-type: none"> • informed decision making • sustainable resource deployment • working with partners and other third parties. <p>We are required to report by exception if we conclude that we are not satisfied that the CCG has in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p> <p>We have performed an initial risk assessment under the new guidance. Our findings are reported in our 2015/16 Audit Plan.</p>	<p>March - July</p>	<p>In progress</p>	

Grant Thornton Publications

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CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

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We are happy to organise a demonstration of the tool if you want to know more.

Innovation in public financial management

This report draws on a survey of almost 300 practitioners worldwide and includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

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The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM. It covers four major topics that will impact on the future of public financial management globally:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of

their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even amongst the best, most transparency efforts are focussed on releasing data sets rather than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons from one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website: <http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

Grant Thornton reports



2016 Transparency Report

Grant Thornton reports

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

It also covers our arrangements for governance and management and sets our most recent financial information.

The report can be downloaded from our website:

www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf

Alternatively, hard copies can be provided by your Engagement Lead or Engagement Manager.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.



Transparency report 2016

Our commitment to brighter futures



Local Government

Accounting and other issues

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IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.





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The Audit Plan for Tonbridge & Malling Borough Council

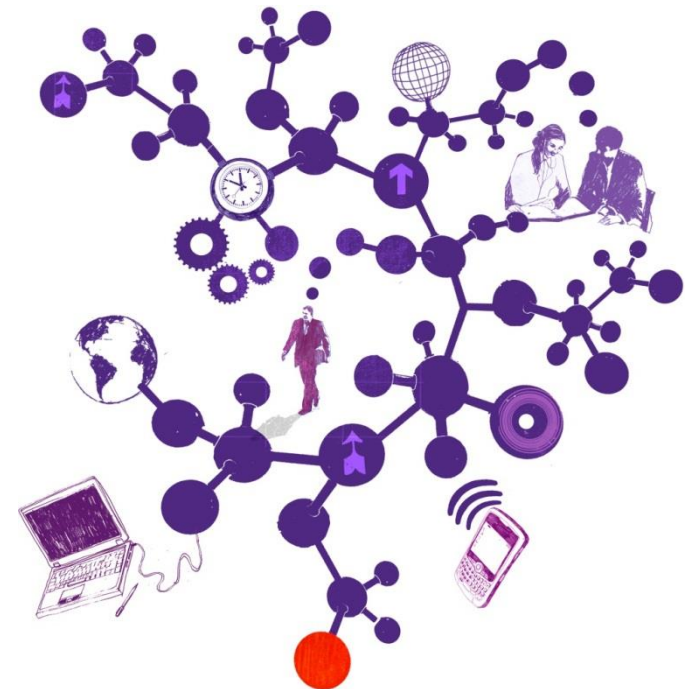
Year ending 31 March 2016

March 2016

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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 process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any 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.

Councillor Vivian Branson
Chair of the Audit Committee
Tonbridge and Malling Borough Council
Gibson Drive
Kings Hill
Kent
ME19 4LZ

5 April 2016

Dear Vivian

Audit Plan for Tonbridge & Malling Borough Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Tonbridge & Malling Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Sarah Ironmonger

Engagement Lead

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Chartered Accountants

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Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial position

- In his 2015 Autumn Statement, the Chancellor proposed that local government would have greater control over its finances, but announced a 24% reduction in central government funding for local government over 5 years.
- Under the settlement for 2016/17 your funding from revenue support grant will be significantly lower than previously anticipated. Funding levels from New Homes Bonus are also forecast to reduce in the medium term. There are also changes to the future framework for funding from business rates.
- You have assessed that the impact of the settlement is to increase the financial gap over the period of the Medium Term Financial Plan from £1.4m to £1.9m. You will continue to need a robust financial planning framework to manage the impact of these changes on the Council's financial position.

2. Strategic planning and transformation

- You recognise the need to consider wider transformation and service redesign given the financial challenges facing the Council.
- You have recently adopted a Savings and Transformation Strategy which identifies a number of themes for future work and sets targets for financial savings.

3. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The Council is investigating the options to achieve the devolution of additional powers in conjunction with neighbouring authorities.



Our response

We will:

- update our understanding of your financial planning framework as part of the work to support our value for money conclusion

We will:

- review your progress with the workstreams under the Savings and Transformation Strategy and consider any issues relevant to our value for money conclusion for 2015/16.

We will:

- review the progress of your devolution discussions and consider any issues which relate to our value for money conclusion for 2015/16.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- The adoption of the new standard may have an impact on the valuation of your investment property assets. There are also a number of additional disclosure requirements under IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement which reports on your financial performance and use of resources in the year. This replaces the Explanatory Foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

4. Other requirements

- You complete a claim for housing benefit subsidy grant which requires audit certification.



Our response

We will:

- keep you informed of changes to the financial reporting requirements for 2015/16 through discussion and invitations to our technical update workshops.
- have early discussions with officers on the local issues arising from the introduction of FRS13.

We will:

- review your arrangements for producing the narrative statement and the AGS, and consider whether these are consistent with our knowledge.

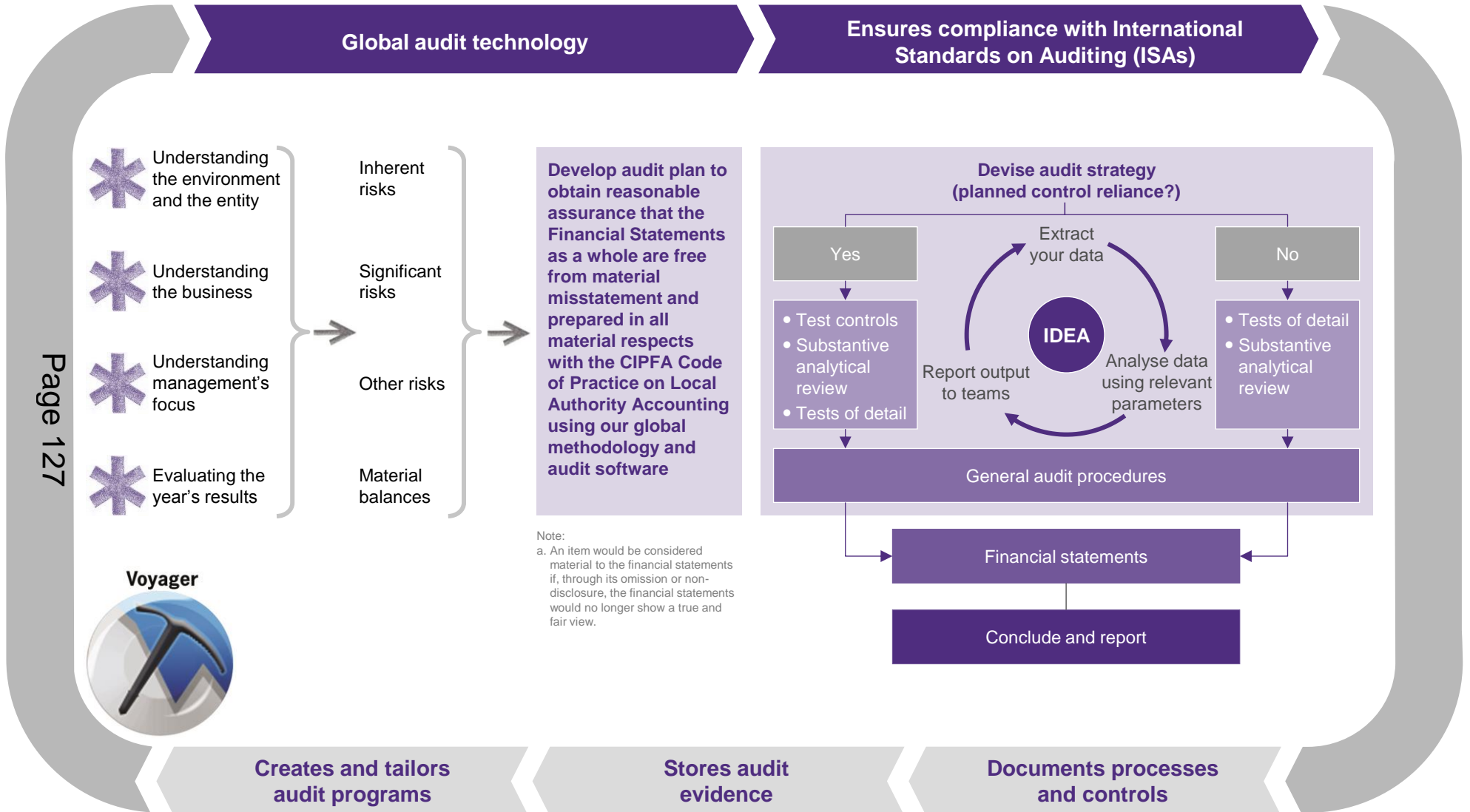
We will:

- continue to work with you to help identify ways of streamlining the process for preparing the financial statements.
- aim to complete substantive work on the audit of your 2015/16 financial statements by 31 July 2016 as a "dry run" in preparation for the acceleration of the statutory timetable in future years.

We will:

- certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd.

Our audit approach



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Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For the purposes of planning the audit we have determined overall materiality to be £1,253,000 (based on 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450 auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £63,000.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.
Management override of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • testing of journal entries • review of accounting estimates, judgments and decisions made by management • review of any unusual significant transactions.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses Page 190	Creditors understated or not recorded in the correct period	Work planned: <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Cut-off testing to ensure that transactions have been recorded in the correct accounting period • Review of yearend reconciliations to ensure completeness of information in the accounts.
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	Work planned: <ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information.
Employee remuneration: Valuation of pension fund net liability	Pension fund assets and liabilities incorrectly valued	Work planned: <ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated • Review the competence, expertise and objectivity of the actuary performing the pension fund valuation • Gain an understanding of the basis for the valuation and assess the reasonableness of the actuarial assumptions made • Review the consistency of disclosures in the financial statements with the actuarial report.

Other risks identified (continued)

Other material balances and transactions

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

- Long term assets
- Investments (short term)
- Short term debtors
- Cash and cash equivalents
- Short term creditors
- Long term liabilities
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- CIES: Financing and investing income and expenditure
- CIES: Taxation and non-specific grant income and expenditure
- Segmental reporting note
- Leases note
- Capital expenditure and capital financing notes
- Financial instruments notes
- Collection Fund and associated notes

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Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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

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

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of good governance• Understanding and using appropriate cost and performance information to support informed decision making and performance management• Reliable and timely financial reporting that supports the delivery of strategic priorities• Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions• Managing assets effectively to support the delivery of strategic priorities• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities• Commissioning services effectively to support the delivery of strategic priorities• Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- illustrative significant risks identified and communicated by the NAO.

Our definition of significant risks, based on the definition in the NAO's Code of Audit Practice, is: *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Reporting

We will continue to review your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.

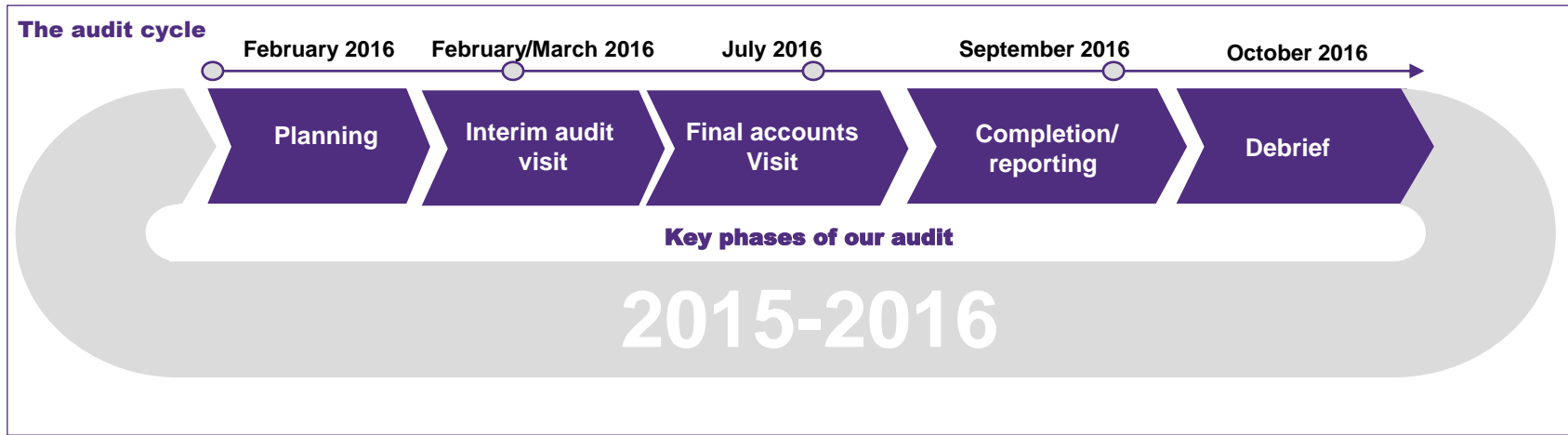
Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
You are facing further significant reductions in government funding in future years. You will need an effective financial planning framework to manage the impact of these changes.	Sustainable resource deployment	We will update our understanding of your medium term financial planning framework and your planned approach to addressing future reductions in central government funding.

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Key dates



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Date	Activity
February 2016	Planning
February/March 2016	Interim site visit
5 April 2016	Presentation of audit plan to Audit Committee
July 2016	Year end fieldwork
5 September 2016	Report audit findings to those charged with governance (Audit Committee)
By 30 September 2016	Sign financial statements opinion and VFM conclusion

Fees and independence

Fees

	£
Council audit	45,776
Grant certification	18,084
Total audit fees (excluding VAT)	63,860

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed information request list.
- The scope of the Council's activities, and of the audit, has not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fee for grant certification covers only the certification of the housing benefit subsidy claim, which falls under the remit of Public Sector Audit Appointments Limited

Fees for other services

Service	Fees £
None	0

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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Agenda Item 14

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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Agenda Item 15

The Chairman to move that the press and public be excluded from the remainder of the meeting during consideration of any items the publication of which would disclose exempt information.

**ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT
INFORMATION**

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Agenda Item 17

Any other items which the Chairman decides are urgent due to special circumstances and of which notice has been given to the Chief Executive.

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