

# TONBRIDGE & MALLING BOROUGH COUNCIL



## EXECUTIVE SERVICES

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### 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.**

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25 August 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 Monday, 5th September, 2016 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

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## **MEMBERSHIP**

Cllr V M C Branson (Chairman)  
Cllr M C Base (Vice-Chairman)

Cllr T Bishop  
Cllr T Edmondston-Low  
Cllr B T M Elks  
Cllr S R J Jessel

Cllr Mrs F A Kemp  
Cllr S C Perry  
Cllr B W Walker

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Apologies for absence

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Declarations of interest

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## TONBRIDGE AND MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 20th June, 2016

**Present:** Cllr V M C Branson (Chairman), Cllr M C Base (Vice-Chairman), Cllr T Edmondston-Low, Cllr Mrs F A Kemp, Cllr S C Perry and Cllr B W Walker

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

Councillors M A Coffin, N J Heslop and T C Walker were also present pursuant to Council Procedure Rule No 15.21.

Apologies for absence were received from Councillors T Bishop, B T M Elks and S R J Jessel

### PART 1 - PUBLIC

#### **AU 16/28 DECLARATIONS OF INTEREST**

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

#### **AU 16/29 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 5 April 2016 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE CABINET

#### **AU 16/30 RISK MANAGEMENT STRATEGY**

The joint report of the Chief Executive and Director of Finance and Transformation reviewed the current Risk Management Strategy. No substantive amendment was considered to be required at this time but Members were advised that the risk management process was due to be revisited and the Strategy updated for future consideration in the light of the forthcoming Corporate Strategy. Thereafter, as previously requested, a briefing on risk management for members of the Audit Committee would be arranged.

**RECOMMENDED:** That

- (1) the Risk Management Strategy set out at Annex 1 to the report be adopted by the Council; and

- (2) it be noted that the risk management process is due to be revisited and the Strategy updated as necessary for subsequent consideration and endorsement.

#### **AU 16/31 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2015/16**

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April and May of the current financial year within the context of the national economy. The treasury management outturn position for 2015/16, due to be reported to the Cabinet on 29 June 2016, was also presented.

The Committee was advised that the interest rate forecast provided by Capita anticipated that the Bank Rate would remain at the emergency level of 0.5% for a further nine months before rising in the first quarter of 2017. The forecast would be updated once the result of the EU referendum was known.

It was noted that the summary of investment performance for 2015/16 indicated that the combined performance of the Council's cash flow and core funds had bettered the revised estimate by £36,100. Investment income earned in April and May of 2016/17 was also higher than expected, exceeding the estimate for the same period by £5,400.

A commentary was given on the application of credit default swap data (the market view of risk) and approval sought to enhance the existing flexibility afforded to officers when determining the appropriate duration of term deposits.

**RECOMMENDED:** That the following be commended to the Council:

- (1) the action taken by officers in respect of treasury management activity for April and May 2016 be endorsed;
- (2) the 2015/16 outturn position be noted; and
- (3) the flexibility afforded to officers when determining the appropriate duration for term deposits be enhanced as outlined in paragraph 1.8.5 of the report.

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

#### **AU 16/32 ANNUAL GOVERNANCE STATEMENT 2015/16**

The report of the Director of Finance and Transformation presented the Annual Governance Statement for the year ended 31 March 2016 which was required to be certified by both the Leader of the Council and the

Chief Executive to accompany, but not form part of, the Council's Statement of Accounts 2015/16.

The Annual Governance Statement had been prepared by way of a self-assessment questionnaire and supporting evidence and was intended to demonstrate that there was a sound system of corporate governance in place throughout the organisation.

**RESOLVED:** That the Annual Governance Statement for the year ended 31 March 2016, as set out at Annex 1 to the report, be approved.

#### **AU 16/33 STATEMENT OF ACCOUNTS 2015/16**

The report of the Director of Finance and Transformation presented an unaudited set of Accounts for 2015/16 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. It was noted that the Accounts included the proposals recommended to the Cabinet meeting on 29 June 2016. The Annual Governance Statement (referred to at Minute AU 16/32) accompanied the Statement of Accounts.

The officers answered a range of questions raised by Members on various aspects of the Accounts. The Committee was reminded that responsibility for approval of the Statement of Accounts was now delegated to the Audit Committee under the Council's constitutional arrangements and the external auditor's report on the outcome of the audit of Accounts was expected to be presented to the meeting on 5 September 2016.

**RESOLVED:** That

- (1) the Statement provided by the Director of Finance and Transformation in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, as set out at Annex 2 to the report, be noted and endorsed;
- (2) the recommendations detailed at paragraph 1.5.4 of the report, following a review of the specific earmarked reserves held by the Council, be noted and endorsed; and
- (3) the unaudited set of Accounts for 2015/16 be received and approved and the Chairman be authorised to sign the Accounts in the appropriate place.

#### **AU 16/34 REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT**

The report of the Chief Audit Executive informed the Committee of the findings of the annual review of the effectiveness of the Internal Audit function. Members were advised that the Management Team had

concluded that the opinion on the effectiveness of the Internal Audit function in place for the year 2015/16 was Good.

Initial feedback from the external quality assessment was also positive and a full report would be presented to the September meeting.

**RESOLVED:** That on the basis of the findings of the review, the opinion that the effectiveness of Internal Audit during 2015/16 was Good be endorsed.

### **MATTERS SUBMITTED FOR INFORMATION**

#### **AU 16/35 OPINION OF CHIEF AUDIT EXECUTIVE ON INTERNAL CONTROL ENVIRONMENT TOGETHER WITH ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2015/16**

The report informed the Committee of the opinion of the Chief Audit Executive on the Council's internal control environment together with the Internal Audit work completed during 2015/16 to support that opinion. Reference was made to the way in which resources had been allocated and the outcome against performance measures. Members noted the opinion that the system of internal control adequately contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives in 2015/16.

The report also informed the Committee of the work carried out by the Counter Fraud function in 2015/16. It was noted that a fraud-proofing review of the Council's arrangements in relation to Housing Benefit applications had been undertaken and further details of the outcome would be provided at a future meeting.

Members commented on the outcome of a number of the internal audit assurance reviews as set out at Annex 1 to the report. In particular the Committee reinforced the reminder to Members to submit the appropriate receipts for travel allowance claims to enable the Council to reclaim VAT where relevant.

**RESOLVED:** That the report be received and noted.

#### **AU 16/36 AUDIT FEE LETTER 2016/17**

The Director of Finance and Transformation reported receipt of the Audit Fee Letter for 2016/17 from Grant Thornton which gave details of the Council's audit fee of £45,776 (the same as for 2015/16) plus an indicative fee of £13,950 for certification work, together with the scope and timing of audit work and the audit team.

**RESOLVED:** That the report be received and noted.

**AU 16/37 NATIONAL FRAUD INITIATIVE 2016/17**

The report of the Director of Finance and Transformation gave details of the Proposed Work Programme and Scales of Fees in respect of the National Fraud Initiative (NFI) 2016/17. It was noted that the Cabinet Office became responsible for data matching exercises following the closure of the Audit Commission. It was proposed to introduce two new mandatory datasets, social housing waiting list data and council tax reduction scheme data, and that the scale of fees would remain unchanged from the NFI 2014/15.

Members were advised that it was considered that no particular comments needed to be made in response to the consultation which ended on 6 May 2016. The final programme and fees would be published shortly.

**RESOLVED:** That the report be received and noted.

**AU 16/38 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. In introducing the report Mr Greenlee referred to the Council's strong record of corporate governance and indicated that there were no issues to draw to Members' attention.

**RESOLVED:** That the report be received and noted.

**AU 16/39 EXCLUSION OF PRESS AND PUBLIC**

There were no items considered in private.

The meeting ended at 8.35 pm

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

05 September 2016

#### Report of the Director of Finance & Transformation

#### Part 1- Public

#### Matters for Recommendation to Cabinet – Council Decision

#### 1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW 2016/17

This report provides an update on treasury management activity undertaken during the period April to July of the current financial year. The report also includes a mid-year review of the current financial year's Annual Investment Strategy and reminds Members of the parameters that define the Council's risk appetite. Members are invited to endorse the action taken by officers in respect of treasury management activity to date, retain the current risk parameters and note the review of the Council's long term cash balances.

#### 1.1 Introduction

1.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2009) was adopted by this Council on 18 February 2010.

1.1.2 The primary requirements of the 2009 Code and its subsequent revisions are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead; a mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

1.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update and revised interest rate forecast.
- Investment performance for April to July of the 2016/17 financial year.
- Use of borrowing.
- Compliance with Treasury and Prudential Limits for 2016/17.
- A review of the risk parameters contained in the 2016/17 Annual Investment Strategy.

## **1.2 Economic Background**

1.2.1 The referendum on the UK's membership of the European Union delivered an unexpected result giving rise to both political and economic uncertainty. That uncertainty resulted in significant volatility in stock and currency markets in the immediate aftermath of the vote. Whilst the political uncertainty has been resolved, economic uncertainty will remain until the UK's trading relationships with the EU and the rest of the world are addressed. This process is expected to take a number of years.

1.2.2 Less than a week after the vote, each of the main rating agencies reviewed their credit assessment of the UK. All three agencies applied a negative outlook whilst Fitch and Standard & Poor's went further with an actual downgrade to AA. The rationale for change included concern over: a slowdown in short term growth as businesses defer investment decisions; an already high budget deficit and the potential for weaker growth in the medium term if trade negotiations become protracted.

1.2.3 Both Moody's and Standard & Poor's also reviewed UK bank and building society credit ratings. Whilst short and long term ratings were affirmed, outlooks have been amended from positive to stable or stable to negative. The rationale points to the likelihood of lower profitability and adverse impacts on asset quality.

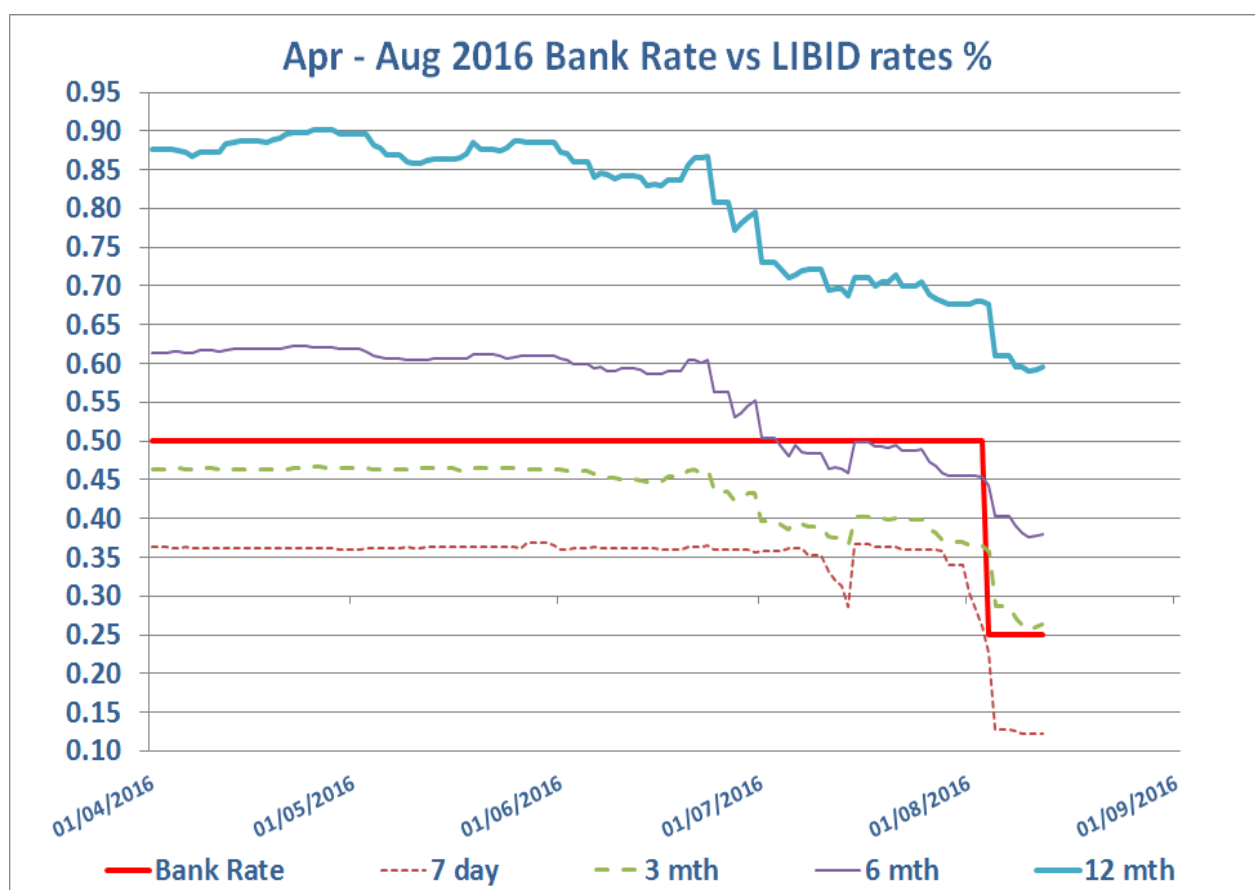
1.2.4 The UK economy grew by 2.2% in 2013, 2.9% in 2014 and 1.8% in 2015. The latest Bank of England forecasts (August 2016) anticipate GDP of 2.0% in 2016 but falling significantly relative to pre referendum estimates to 0.8% in 2017 and 1.8% in 2018.

1.2.5 Inflation (CPI) in 2015 was around 0% throughout 2015, rose to 0.3% in the year to April and was expected to rise to target (2%) over the course of the next two to



three years. Following the post referendum fall in the value of sterling, CPI is now forecast to rise much more rapidly, reaching target mid-2017 and remaining around 2.3% in 2018 and 2019.

- 1.2.6 The Monetary Policy Committee (MPC) at its meeting in August, continued to set aside its remit to manage inflation and introduced a series of substantive measures aimed to support economic growth. The Bank Rate was cut from 0.5% to 0.25% and the Bank's Quantitative Easing (QE) programme was raised from £375bn by £60bn to fund new gilt purchases. Two new programmes were also introduced. £10bn to fund the purchase of corporate bonds and up to £100bn to provide low cost funding to banks (Term Funding Scheme).
- 1.2.7 The Chancellor of the Exchequer has also pledged to do 'whatever is needed' to promote growth. A package of fiscal and or expenditure plans, in support of the BoE's monetary action, is expected in the Autumn Budget Statement. Eliminating the UK's budget deficit is likely to slip further into the future.
- 1.2.8 The impact of the referendum and the subsequent Bank Rate cut on investment returns is demonstrated in the following table.



- 1.2.9 Elsewhere in the world the Federal Reserve in America raised the Fed Rate (equivalent of our Bank Rate) by 0.25% to 0.50% in December 2015. The rise was the first since 2006. Current market expectation is for the Fed Rate to rise again in the autumn.

1.2.10 The March meeting of the European Central Bank saw an expansion of its programme of quantitative easing and a further cut below zero of the deposit rate. Eurozone activity and business confidence surveys showed improvement in both April and May and deflationary pressures also appeared to be easing. A further tranche of financial support for Greece was also announced in May.

### 1.3 Interest Rate Forecast

1.3.1 The Bank Rate, having remained at an emergency level of 0.5% for the last 7 years, was reduced to 0.25% in August. Capita's July forecast, produced just after the June referendum anticipated the cut in Bank Rate.

July 2016	Now	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
3 mth LIBID	0.43	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.50	0.60
6 mth LIBID	0.55	0.50	0.50	0.50	0.50	0.60	0.60	0.70	0.70	0.70
12 mth LIBID	0.80	0.60	0.60	0.60	0.50	0.70	0.80	0.90	0.90	0.90
25yr PWLB	2.48	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60

1.3.2 Following the BoE meeting in August and the expectation that the Bank would take further action in the autumn if data was in-line with forecast, Capita issued the following revision.

August 2016	Now	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.25	0.25	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25
3 mth LIBID	0.39	0.30	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.30
6 mth LIBID	0.48	0.40	0.30	0.30	0.30	0.40	0.40	0.50	0.50	0.50
12 mth LIBID	0.70	0.60	0.50	0.50	0.60	0.60	0.70	0.70	0.70	0.80
25yr PWLB	2.31	2.30	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

### 1.4 Investment Portfolio

1.4.1 The Annual Investment Strategy for the 2016/17 financial year was approved by Council on 16 February 2016. The Strategy outlines the Council's investment priorities as follows:

- Security of Capital.
- Liquidity.

1.4.2 In addition the Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In particular, for 2016/17 the Council will 'avoid locking into longer term deals while investment

rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile'. The Council has adopted Capita's recommended creditworthiness approach which incorporates the credit ratings from each of the three main rating agencies and includes sovereign credit ratings and a market view of risk using credit default swap (CDS) data.

1.4.3 A full list of investments held on 31 July 2016 and our lending list in operation on that date are provided in **[Annexes 1 and 2]**.

1.4.4 The average level of cash flow funds available for investment to the end of July 2016 was £14.1m. These funds were available on a temporary basis and the amount mainly dependent on the timing of council tax and business rate collection, precept and business rate payments, receipt of grants and progress on the capital programme. Cash flow funds are received and spent during the course of a financial year. The Authority also holds £15.6m of core cash balances. These funds are for the most part available to invest for more than one year, albeit some may need to be recalled towards the end of the financial year to top-up daily cash balances. Core funds comprise the Council's capital and revenue reserves and are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets.

1.4.5 At the end of July 2016 funds invested and interest earned is set out in the table below.

	<b>Funds invested at 31 July 2016 £m</b>	<b>Average duration to maturity Days</b>	<b>Weighted average rate of return %</b>	<b>Interest earned to 31 July 2016 £</b>	<b>Gross annualised return %</b>	<b>LIBID benchmark %</b>
<b>Cash flow</b>	14.9	84	0.74	32,750	0.69	0.35 (7 Day)
<b>Core funds</b>	15.6	90	0.81	42,000	0.81	0.39 (3 Month)
<b>Total</b>	30.5	87	0.78	74,750	0.75	0.37 (Average)

1.4.6 Interest earned of £74,750 is £13,700 more than budget for the same period and 38 basis points above benchmark. The additional income is attributed to higher than expected cash flow and core fund balances and the opportunity that this created to invest more in higher yielding term deposits. But for the outcome of the referendum and the Bank Rate cut it triggered, the pattern of income generation was expected to be maintained such that income for the year as a whole was likely to be some £30,000 above budget.

1.4.7 The cut in Bank Rate from 0.50% to 0.25% in August means this will no longer be possible. However, because the opportunity was taken before the referendum to

invest as much as possible for as long as possible in term deposits, a significant proportion of this year's income is essentially locked in. The main impact of the Bank Rate cut will be felt later in the year when the core fund investments begin to mature and are reinvested at lower rates of return. **If the BoE retain the current 0.25% Bank Rate, income for the year as a whole is expected to be in-line with budget at £206,000.**

- 1.4.8 However, the August Bank Rate cut was accompanied by an expectation that a further cut may be needed in the autumn. Capita's August forecast (paragraph 1.3.2 above) anticipates such a scenario and incorporates a further reduction in Bank Rate to 0.1%. A number of term deposits were placed in August to limit the impact should this arise. **If the Bank Rate falls to 0.1%, income for year as a whole is likely to fall below budget by some £20,000.**
- 1.4.9 In autumn 2015, there was an expectation that the economy would grow at a reasonable pace throughout 2016 and beyond. Whilst those expectations were dented in January and February 2016 by stock market falls around the world, the next move in Bank Rate, pre the referendum, was a clear expectation that it would increase. The forecast presented to Audit Committee in January anticipated Bank Rate moving from 0.5% to 0.75% mid-2016 and that rise and others feature in the Council's current financial projections. Whilst the August rate cut and the potential for a second has limited impact on investment income this financial year, the impact over the course of the next few years will be significant. Measures to mitigate some of that impact are explored in paragraphs 1.8.3 and 1.8.4.

## 1.5 Benchmarking

- 1.5.1 The Council takes advantage of Capita's benchmarking facility which enables performance to be gauged against Capita's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph in **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 30 June 2016 our return at 0.8% (purple diamond) was above the average of 0.72% for all other local authorities and relative to the Council's exposure to credit / duration risk that return exceeded Capita's predicted return (just above the upper boundary indicated by the green diagonal line). The Council's risk exposure was just above average.

## 1.6 Use of Borrowing

- 1.6.1 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 2016/17 Investment Strategy. The Authority is debt free and uses a combination of reserves and revenue contributions to finance the Capital Plan. Borrowing on a temporary basis using overdraft facilities may be required from time to time to meet liquidity needs. However, no borrowing was undertaken in the period April to July 2016.

## 1.7 Compliance with the Annual Investment Strategy

- 1.7.1 Throughout April to July 2016 all of the requirements contained in the 2016/17 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit rating; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with.
- 1.7.2 In addition the Council has operated within the treasury limits and prudential indicators set out in the 2016/17 Annual Investment Strategy and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **[Annex 4]** to this report.

## 1.8 Review of Risk Parameters

- 1.8.1 Members will recall the detailed consideration that was given to the 2016/17 Annual Investment Strategy at the January 2016 meeting of the Audit Committee. The strategy includes the parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. More specifically the 2016/17 Annual Investment Strategy requires:
- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).
  - Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.
  - Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds (25% of funds for part state owned UK Banks).
  - In selecting suitable counterparties the Council has adopted Capita's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 12 months, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days. This broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (strong).
  - The duration of an investment in a foreign bank must not exceed Capita's recommendation. For UK financial institutions Capita's duration recommendation can be enhanced by up to three months subject to the combined duration (Capita recommendation plus the enhancement) not exceeding 12 months.

- Money Market funds should be rated Fitch AAmmf or equivalent and exposure limited to no more than 20% per fund.
- Enhanced Money Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.

1.8.2 A change in Capita's use of Credit Default Swap (CDS) data in November 2015, coupled with volatility in UK Bank CDS prices in the run-up to the referendum, resulted in a number of term deposits due to be placed in March and April of this year being delayed. Audit Committee in June supported an amendment to the Annual Investment Strategy to allow officers, under certain circumstances, to set Capita's post CDS duration assessment to one side and base term deposit duration on credit ratings alone. **In undertaking this review no further changes that impact on the Council's risk appetite are proposed.**

1.8.3 The cut in Bank Rate in August and the potential for a further cut in the autumn, will result in a significant reduction in investment income over the next few years. The majority of the Council's investment is with UK institutions. Whilst their credit quality is good, investment duration, even including the additional flexibility referred to above, is typically limited to nine months. Higher quality foreign banks are used when the opportunity arises but Capita's duration assessment invariably limits investment with them to no more than twelve months. Longer duration investments carry higher risk and are rewarded by higher returns. **A review of Capita's duration assessments will be undertaken as part of the preparatory work for the 2017/18 Annual Investment Strategy.**

1.8.4 The Council's long term cash balances will also be reviewed to identify if scope exists to use alternative types of investment e.g. property funds. Property fund Investment typically implies a minimum 5 year period to recoup initial management fees but they do offer the potential for much higher returns. The Council's cash balances are required to meet payment obligations in the short term and the Council's reserves are being consumed over the medium term whilst the Council grapples with savings targets. As a consequence, surplus monies are likely to be limited. However, even a modest investment in a property fund will help mitigate some of the impact of an extraordinarily low Bank Rate. Property funds might also be appropriate for 'new money' the Council was able to generate from the sale of existing land and buildings. **A detailed explanation of the risks and rewards associated with property funds will be reported to the January 2017 meeting of Audit Committee.**

## 1.9 Legal Implications

1.9.1 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.

1.9.2 This mid-year review report fulfils a requirement of the Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

## **1.10 Financial and Value for Money Considerations**

1.10.1 The Bank Rate having remained at a historic low of 0.5% for over 7 years was cut to 0.25% in August 2016. Capita, our treasury advisors, anticipate the bank rate will remain at this level until June 2018. However, dependent on actual economic activity over the next few months the BoE may introduce a further cut in Bank Rate in the autumn. Under this scenario Capita forecast Bank Rate dropping to 0.1% and only rising to 0.25% in June 2018.

1.10.2 At the end of July 2016, Investment income is £13,700 more than expected. If the Bank Rate remains at 0.25% throughout this financial year, income for the year as a whole is expected to be in-line with budget at £206,000. Should a further cut in bank rate take place, income is projected to fall below budget by £20,000.

1.10.3 The impact of the August Bank Rate cut and the potential for it to be cut again will have a significant impact on the Council's ability to generate investment income over the next few years. The potential to mitigate some of that impact through alternative types of investment e.g. property funds will be explored and reported to the January 2017 meeting of Audit Committee.

1.10.4 Investment performance is monitored against relevant benchmarks and compared to other local authorities in Kent and the broader local authority pool via Capita's benchmarking service. At the end of June 2016 the Council's return was above the average for all other local authorities.

## **1.11 Risk Assessment**

1.11.1 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 the most effective way of mitigating the risks associated with treasury management.

## **1.12 Equality Impact Assessment**

1.12.1 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.

## **1.13 Recommendations**

1.13.1 Members are invited to **RECOMMEND** that Cabinet:

- 1) Endorse the action taken by officers in respect of treasury management activity for the period April to July 2016.

- 2) Retain the existing parameters intended to limit the Council's exposure to investment risks.
- 3) Note the review of the Council's long term cash balances and the use of property funds for subsequent consideration by the Audit Committee in January 2017.

Background papers:

contact: Mike Withey

Capita Interest Rate Forecast (July 2016 and August 2016)

Sharon Shelton  
Director of Finance and Transformation



## Investment Summary as at 29 July 2016

Counterparty	Sovereign	Fitch Credit rating		Capita Suggested Post CDS 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%		Fixed deposit	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		1,000,000
Bank of Scotland	UK	A+	F1	6 months	25/04/2016	25/01/2017	9 months	1,000,000	0.90%		Fixed deposit	1,000,000	
<b>Bank of Scotland Total</b>								<b>3,000,000</b>		9.85%			
Blackrock MMF	n/a	AAA	mmf (Eq)	5 years	29/07/2016	01/08/2016	n/a	143,000	0.47%		Call - MMF		143,000
<b>Blackrock MMF Total</b>								<b>143,000</b>		0.47%			
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	29/07/2016	01/08/2016	n/a	4,600,000	0.52%		Call - MMF	1,600,000	3,000,000
<b>BNP Paribas MMF Total</b>								<b>4,600,000</b>		15.10%			
Goldman Sachs Int'l Bank	UK	A	F1	6 months	10/12/2015	09/09/2016	9 months	2,000,000	0.87%		Fixed deposit	2,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	01/06/2016	01/03/2017	9 months	2,000,000	0.87%		Fixed deposit		2,000,000
<b>Goldman Sachs Int'l Bank Total</b>								<b>4,000,000</b>		13.13%			
Standard Life (Ignis) MMF	n/a	AAA	mmf	5 years	29/07/2016	01/08/2016	n/a	367,000	0.48%		Call - MMF		367,000
<b>Ignis MMF Total</b>								<b>367,000</b>		1.20%			
Lloyds Bank	UK	A+	F1	6 months	21/01/2016	21/10/2016	9 months	1,000,000	0.85%		Fixed deposit		1,000,000
Lloyds Bank	UK	A+	F1	6 months	25/04/2016	25/01/2017	9 months	1,000,000	0.90%		Fixed deposit	1,000,000	
Lloyds Bank	UK	A+	F1	6 months	13/07/2016	13/01/2017	6 months	250,000	0.80%		Fixed deposit		250,000
Lloyds Bank	UK	A+	F1	6 months	25/07/2016	25/01/2017	6 months	500,000	0.80%		Fixed deposit		500,000
<b>Lloyds Bank Total</b>								<b>2,750,000</b>		9.03%			
Morgan Stanley MMF	n/a	AAA	mmf	5 years	29/07/2016	01/08/2016	n/a	592,000	0.47%		Call - MMF		592,000
<b>Morgan Stanley MMF Total</b>								<b>592,000</b>		1.94%			
NatWest Bank Call Account	UK	BBB+	F2	1 year	29/07/2016	01/08/2016	n/a	10,000	0.25%		Call		10,000
<b>National Westminster Bank Total</b>								<b>10,000</b>		0.03%			
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	UK	A	F1	6 months	29/02/2016	30/11/2016	9 months	1,750,000	0.84%		Fixed deposit	1,750,000	
Nationwide Building Society	UK	A	F1	6 months	11/04/2016	11/01/2017	9 months	2,000,000	0.84%		Fixed deposit		2,000,000
<b>Nationwide Building Society Total</b>								<b>5,000,000</b>		16.41%			
Rabobank	Netherlands	AA-	F1+	1 year	10/03/2016	12/12/2016	9 months	1,000,000	0.74%		CD	1,000,000	
<b>Rabobank Total</b>								<b>1,000,000</b>		3.28%			
Santander UK Plc	UK	A	F1	6 months	29/07/2016	01/08/2016	n/a	6,000,000	0.80%		Call	3,000,000	3,000,000
<b>Santander UK Plc Total</b>								<b>6,000,000</b>		19.70%			
Toronto Dominion Bank	Canada	AA-	F1+	1 year	18/03/2016	17/03/2017	1 year	1,000,000	0.84%		CD	1,000,000	
Toronto Dominion Bank	Canada	AA-	F1+	1 year	14/04/2016	13/04/2017	1 year	1,000,000	0.88%		CD	1,000,000	
Toronto Dominion Bank	Canada	AA-	F1+	1 year	12/05/2016	10/02/2017	9 months	1,000,000	0.80%		CD		1,000,000
<b>Toronto Dominion Bank Total</b>								<b>3,000,000</b>		9.85%			
					<b>Total invested</b>			<b>30,462,000</b>		<b>100.00%</b>		<b>15,600,000</b>	<b>14,862,000</b>

Number of investments	24	Average investment value £		1,269,000	
Number of counter parties	12	Average counter party investment £		2,539,000	
<b>Group exposures:</b>		<b>Core £</b>	<b>Cash £</b>	<b>Combined £</b>	<b>%</b>
RBS + National Westminster (UK Nationalised 25% per fund)		-	10,000	10,000	0.03
Bank of Scotland + Lloyds (20% per fund)		3,000,000	2,750,000	5,750,000	18.88

<b>Total non-specified investments should be less than 60% of Core Funds</b>	0.00%
--	-------

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 29/07/16									
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	Credit Rating	Post CDS
Bank of Montreal	Canada	AAA	AA-	F1+	£3.0m	£3.0m	£6m	12 months	12 months
Toronto Dominion Bank	Canada	AAA	AA-	F1+	£3.0m	£3.0m	£6m	12 months	12 months
Deutsche Bank	Germany	AAA	A-	F1	£3.0m	£3.0m	£6m	100 days	n/c
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	£3.0m	£3.0m	£6m	12 months	12 months
ING Bank	Netherlands	AAA	A+	F1	£3.0m	£3.0m	£6m	6 months	6 months
Nordea Bank AB	Sweden	AAA	AA-	F1+	£3.0m	£3.0m	£6m	12 months	12 months
Svenska Handelsbanken AB	Sweden	AAA	AA	F1+	£3.0m	£3.0m	£6m	12 months	12 months
Bank of Scotland (Group limit with BOS and Lloyds of £3m - £6m)	UK	AA	A+	F1	£3.0m	£3.0m	£6m	6 months	6 months
Barclays Bank	UK	AA	A	F1	£3.0m	£3.0m	£6m	6 months	100 days
Goldman Sachs Int'l Bank	UK	AA	A	F1	£3.0m	£3.0m	£6m	6 months	6 months
HSBC Bank	UK	AA	AA-	F1+	£3.0m	£3.0m	£6m	12 months	12 months
Lloyds Bank (Group limit with BOS and Lloyds of £3m - £6m)	UK	AA	A+	F1	£3.0m	£3.0m	£6m	6 months	6 months
Santander UK	UK	AA	A	F1	£3.0m	£3.0m	£6m	6 months	6 months
Standard Chartered Bank	UK	AA	A+	F1	£3.0m	£3.0m	£6m	6 months	100 days
Coventry Building Society	UK	AA	A	F1	£3.0m	£3.0m	£6m	6 months	6 months
Nationwide Building Society	UK	AA	A	F1	£3.0m	£3.0m	£6m	6 months	6 months
National Westminster Bank [3] (Group limit with Nat West and RBS of £3.8m - £7.6m)	UK	AA	BBB+	F2	£3.8m	£3.8m	£7.6m	12 Months	12 Months
The Royal Bank of Scotland [3] (Group limit with Nat West and RBS of £3.8m - £7.6m)	UK	AA	BBB+	F2	£3.8m	£3.8m	£7.6m	12 Months	12 Months
UK Debt Management Office including Treasury Bills	UK	AA	N/A	N/A	No limit	No limit	No limit	N/A	N/A
UK Treasury (Sovereign Bonds-Gilts)	UK	AA	N/A	N/A	No limit	£7.5 / 15m	£7.5 / 15m	N/A	N/A
UK Local Authorities	UK	AA	N/A	N/A	£3.0m	£3.0m	£6m	N/A	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 (£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 for non-UK entities must not exceed Capita's post CDS duration assessment. For UK entities, duration may be extended by up to three months based on credit ratings alone subject to a maximum combined duration of 12 months.

[3] UK nationalised / semi-nationalised.

Money Market Funds						
Minimum investment criteria one of AAA-mf, AAmmf or AAAm						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAm	£3.0m	£3.0m	£6m
BNP Paribas	-	-	AAAm	£3.0m	£3.0m	£6m
Goldman Sachs	AAA-mf	AAmmf	AAAm	£3.0m	£3.0m	£6m
Deutsche Fund	AAA-mf	AAmmf	AAAm	£3.0m	£3.0m	£6m
Standard Life (Igris)	-	AAmmf	AAAm	£3.0m	£3.0m	£6m
Morgan Stanley	AAA-mf	AAmmf	AAAm	£3.0m	£3.0m	£6m
Prime Rate	-	AAmmf	AAAm	£3.0m	£3.0m	£6m
Insight Liquidity Group limit for IL and ILP of £3m - £6m	-	AAmmf	AAAm	£3.0m	£3.0m	£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 £3m - £6m	-	-	AAAf / S1	£1.5m	£1.5m	£3m

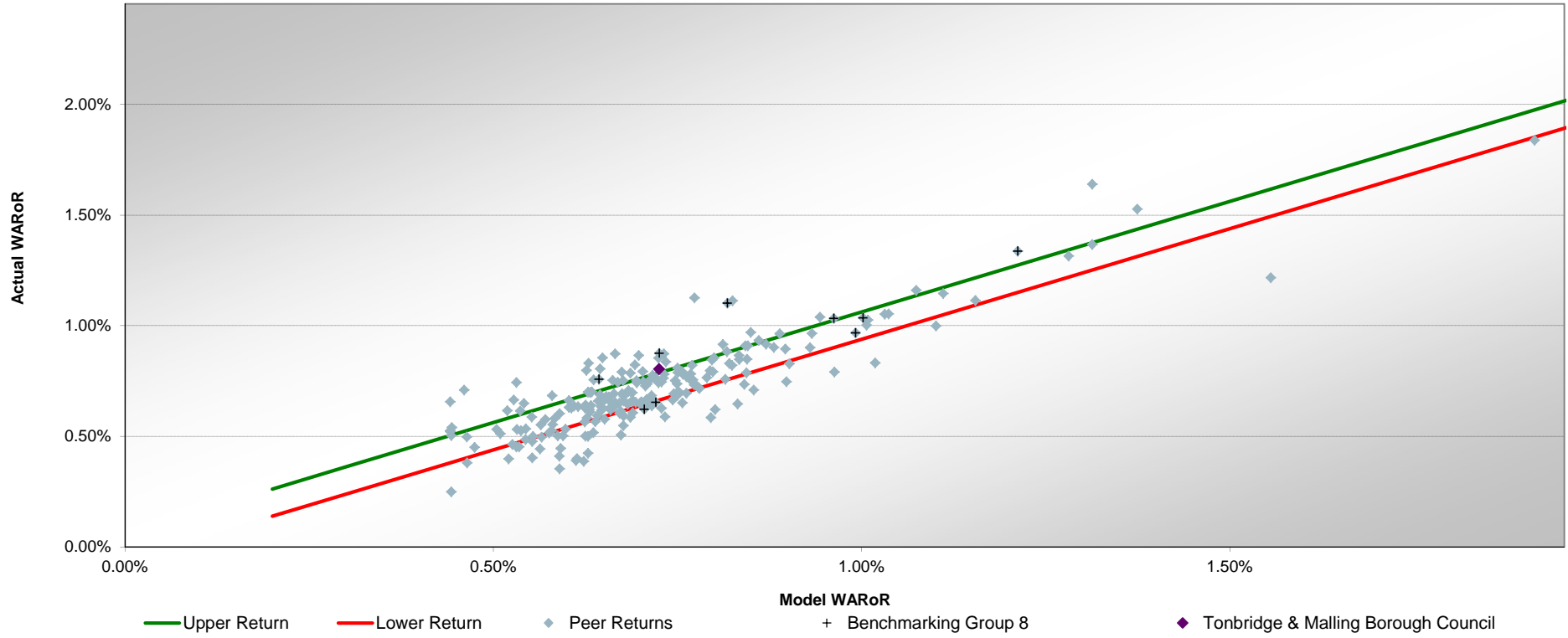
Approved by Director of Finance and Transformation  
1st August 2016

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Tonbridge & Malling Borough Council

Population Returns against Model Returns



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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
<b>Tonbridge &amp; Malling Borough Council</b>	0.80%	0.73%	0.08%	0.66%	0.79%	Above

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### Prudential and Treasury Indicators

<b>1 Prudential Indicators</b>	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital expenditure	3,287	3,314	1,872
Ratio of financing costs to net revenue stream	-1.90%	-2.07%	-2.53%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	Nil
Annual change in capital financing requirement	nil	nil	Nil
Incremental impact of capital investment decisions:			
Increase in Council Tax (Band D) per annum	£0.24	£0.10	£0.00

<b>2 Treasury Management Indicators</b>	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Authorised limit for external debt:			
Borrowing	nil	5,000	5,000
Other long term liabilities	nil	nil	nil
Total	nil	5,000	5,000
Operational boundary for external debt:			
Borrowing	nil	2,000	2,000
Other long term liabilities	nil	nil	nil
Total	nil	2,000	2,000
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	0 – 60%
Upper limit for variable rate exposure under one year at the year end	13,468 (55.6%)	40 – 100%	40 – 100%
Upper limit for total principal sums invested for over 364 days	nil (0%)	60%	60%

<b>3 Maturity structure of new fixed rate borrowing during 2015/16</b>	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

05 September 2016

#### Report of the Director of Finance and Transformation

#### Part 1- Public

#### Delegated

#### **1 EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE STATEMENT OF ACCOUNTS 2015/16**

**Members are invited to endorse and approve the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2015/16. This report is to be approved prior to the Engagement Lead signing off the Accounts. The Engagement Lead and or his representative will be at the meeting to present the report and to answer questions.**

#### **1.1 Introduction**

1.1.1 Our external auditor (Grant Thornton UK LLP) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. Under the Council's constitutional arrangements it is this Committee that is charged with governance for this purpose.

1.1.2 In accordance with this requirement, the Audit Findings Report on the outcome of the audit of the Statement of Accounts 2015/16, up to the date of the print deadline, is attached at **[Annex 1]**. Some procedural matters are in the process of being finalised prior to the meeting of the Committee and officers will provide a verbal update at the meeting. The Engagement Lead and or her representative will be at the meeting to present the report and to answer questions.

#### **1.2 Conclusions and Recommendations**

1.2.1 Members will note there are no material issues, at this stage, that need to be brought to the attention of the Committee and that the Engagement Lead anticipates being able to issue an unqualified audit opinion on the financial statements and value for money conclusion in the next few weeks.

1.2.2 For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation **[Annex 2]** that I have prepared. With that in mind it is requested that delegated authority be granted to

the Chairman and I to sign the Letter when Grant Thornton are ready to issue their opinion. Accordingly, there is a statement at the end of the letter which reads:

*“The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 5 September 2016, with delegated authority granted to the Chairman to sign this letter, together with the Director of Finance and Transformation”.*

### 1.3 Statement of Accounts 2015/16

1.3.1 As noted at paragraph 1.2.1, I am pleased to report there are no material issues that need to be brought to the attention of the Committee following the audit. At Appendix A of the Audit Findings Report there is an action plan which for ease of reference is also shown below.

<b><u>REC NO.</u></b>	<b>Recommendation</b>	<b>Priority</b>	<b>Management response</b>	<b>Implementation date &amp; responsibility</b>
1	Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.	Low	Will be part of the review of the financial statements for the 2016/17 year.	For 2016/17 Financial Statements – Financial Services Manager.

1.3.2 The audited Accounts include a small number of minor technical or textual changes from the unaudited Accounts presented to the Committee in June. I do not propose circulating copies of the audited Accounts to all Members, but the Chairman will be asked to sign a copy of the audited Accounts for 2015/16. If Members so wish, updated copies may be obtained by contacting my Chief Financial Services Officer, Neil Lawley or my Financial Services Manager, Paul Worden, who will be pleased to supply copies and answer any questions you may have.

1.3.3 With regard to value for money it was found 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 ending 31 March 2016. Members will note the overall VFM conclusion within the report states:

*“On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.”*

## 1.4 Legal Implications

- 1.4.1 There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

## 1.5 Financial and Value for Money Considerations

- 1.5.1 The cost of the work carried out is as notified to us in the 2015/16 Audit Plan.

## 1.6 Risk Assessment

- 1.6.1 The Statement of Accounts is a statutory document and, therefore, failure to prepare and publish the Accounts in accordance with proper accounting practice and within the statutory timescales could adversely affect the Council.

## 1.7 Equality Impact Assessment

- 1.7.1 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.

## 1.8 Recommendations

- 1.8.1 Members are **RECOMMENDED** to:

- 1) Approve the Audit Findings Report, subject to the verbal update, on the outcome of the audit of the Statement of Accounts for 2015/16 **[Annex 1]** together with the associated action plan set out at paragraph 1.3.1.
- 2) Endorse that the Chairman and I be granted delegated authority to countersign the Letter of Representation **[Annex 2]** when Grant Thornton are ready to issue their opinion.
- 3) Request that the Chairman sign the Accounts in the appropriate place.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

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# The Audit Findings for Tonbridge & Malling Borough Council

Year ended 31 March 2016

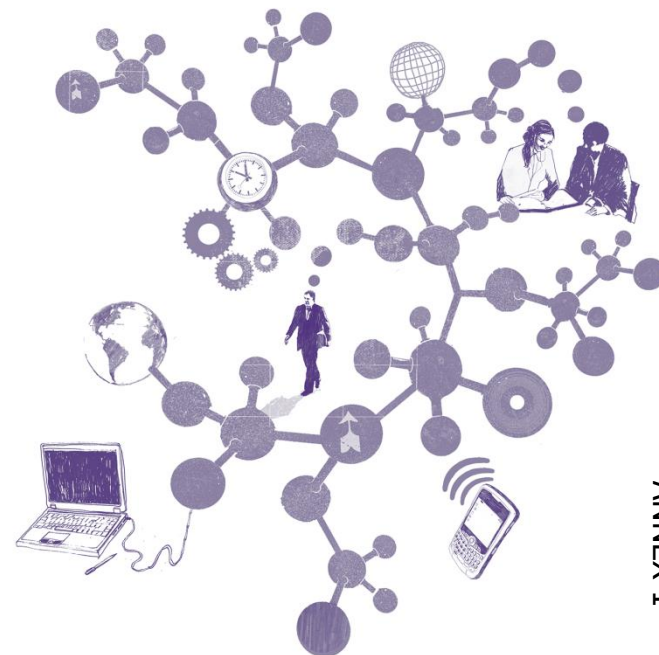
August 2016

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Tonbridge & Malling Borough Council  
Gibson Drive  
Kings Hill  
Kent  
ME19 4LZ

5 September 2016

Dear Vivian

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

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Tonbridge & Malling Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Sarah Ironmonger  
Engagement lead

**Chartered Accountants**

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2. Audit findings	8
3. Value for Money	22
4. Fees, non-audit services and independence	26
5. Communication of audit matters	28

## Appendices

- A Action plan
- B Audit opinion

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# Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters



## Purpose of this report

This report highlights the key issues affecting the results of Tonbridge & Malling Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements and conclude whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves as to whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements under the Code and the Act. We are required to provide a conclusion as to whether in all significant respects the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- we have requested the Council to obtain additional information from its valuers clarifying if the valuation of investment properties performed in 2015/16 was on a fair value basis. We have also requested clarification of the basis on which the Council's valuers concluded there was no material change in value at 31 March 2016 for assets valued at 1 January 2016
- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements and the Annual Governance Statement
- updating our post balance sheet events review to the date of signing our audit opinion
- work under the Whole of Government Accounts framework.

We are also awaiting third party confirmation for a material investment balance.

## Key audit and financial reporting issues

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We concluded that the Council's provision for business rate appeals was potentially understated for the element relating to appeals not yet received. However, we concluded the amount of any understatement was not material for our opinion and we did request an amendment to the accounts.

We have not identified any adjustments requiring amendment to the primary financial statements. We identified a small number of adjustments requiring amendments to disclosure notes. These have been actioned by officers.

Further details of our findings are set out in section 2 of this report.

### **Other financial statement responsibilities**

As well as an opinion on the financial statements we are required to give an opinion on whether other information published with the audited financial statements is consistent with the financial statements.

We concluded the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

We are required to report to you if in our opinion the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SO 162 guidance or is misleading or inconsistent with the information of which we are aware from our audit. We have nothing to report in this respect.

### **Controls**

#### **Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where as part of our testing we identify any control weaknesses we report these to the Council.

#### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We are required to report to you where we apply the following additional powers and duties for local government auditors under the Act:

- issue of a public interest report where we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

We have not received any questions or objections concerning the 2015/16 financial statements.

...

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with officers.

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**August 2016**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# 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'.

In our audit plan we reported that we had determined overall materiality to be £1,253,000 (being 2% of gross revenue expenditure) We have considered whether this level remained appropriate during the course of the audit. Based on the gross revenue expenditure reported in the draft financial statements we revised our overall materiality to £1,236,000 (being 2% of gross revenue expenditure).

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £62,000. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

# Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 46	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work, including our review of journal controls and testing of journal entries, has not identified any evidence of management override of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• Substantive testing of payroll information for a sample of employees to supporting documentation</li> <li>• Review of yearend reconciliations to ensure completeness of information in the accounts</li> <li>• Trend analysis to assess completeness of payroll information</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> <li>• Documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• Walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• Substantive testing of creditor balances to supporting documentation</li> <li>• Testing of new year payments to ensure expenditure had been posted to the correct accounting period</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

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# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 48</p>	<p><b>Valuation of pension fund net liability</b></p>	<ul style="list-style-type: none"> <li>• Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated</li> <li>• Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation</li> <li>• Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made</li> <li>• Review of the consistency of disclosures in the financial statements with the actuarial report.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>



# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> <li>Revenue recognition policies are set out at Note 1 to the accounts</li> </ul>	<ul style="list-style-type: none"> <li>Although the Council's accounting policies provide information on revenue recognition in respect of Council Tax and National Non-Domestic Rates, they would be improved by a more explicit policy in respect of General Fund Revenue. We recommend that this is included in the Council's accounting policies for future years. The issue relates to disclosure only; in our audit we have not identified any instances where revenue has been recognised inappropriately, any areas of non compliance with the existing policies, or any areas of significant judgement in the application of those policies.</li> </ul>	
Judgements and estimates  Page 49	<ul style="list-style-type: none"> <li>Key estimates and judgements include                             <ul style="list-style-type: none"> <li>pension fund valuations</li> <li>PPE revaluations</li> <li>impairments</li> <li>provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The Council sets out its policies on judgements and estimates in note 1 to the accounts. We reviewed these policies and concluded they were reasonable and consistent with the CIPFA Code of Practice on Local Authority Accounting. We did not identify any instances of non compliance with those policies.</li> <li>We considered the Council's process to estimate the carrying value of those assets not subject to external revaluation in 2015/16. We concluded that the Council's estimate was not materially misstated.</li> </ul> <p><b>Provision for business rate appeals</b></p> <p>Under the accounting framework for business rates billing authorities are required to estimate a provision for business rate appeals. The value of this provision in the collection fund account at 31 March 2016 was £7,910,000, of which the Council's share was £3,164,000.</p> <p>We reviewed the trails supporting the provision. For 2015/16 the Council has included an element for appeals not yet received, which is best practice. However, a review suggested some of the assumptions used in calculating this element were inconsistent with the Council's local experience of the number of ratepayers likely to appeal and the likely percentage of those appealing who were likely to succeed. Using the Council's current methodology we concluded that this element of the provision was potentially understated by £80,000. Given the amount involved, and as further work might be required to refine the estimate, officers have not amended the accounts. We concluded that the amount of any understatement was not material for our opinion .</p>	



**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and are satisfied with managements' assessment that the going concern basis is appropriate for the financial statements.	
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	

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**Assessment**

 Marginal accounting policy which could potentially attract attention from regulators

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 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have been made aware of investigations and prosecutions during the year. We have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Our work has not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We use third party confirmations to support our review of cash and investment balances at 31 March 2016.</li> <li>Our testing has not identified any issues requiring further work. However, we are still awaiting one bank confirmation for a material investment balance.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Issues requiring changes to amounts above the level at which we are required to report are reported at "Misclassifications and disclosure changes". We also agreed a number of other minor changes to the amounts and narrative at disclosure notes.</li> </ul>

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## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report by exception</li> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with information of which we are aware.</li> <li>• Where we apply additional powers and duties for local government auditors under the Act.</li> </ul> <p>We have nothing to report in these respects.</p>
8. <b>Page 52</b>	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is only required where certain values in the Council's accounts exceed thresholds specified by the National Audit Office. No detailed work is required for 2015/16.</p>

## Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses.

We have no matters to report to you.

# Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> <li>In confirming the existence of fixed assets the Council places reliance on certificates signed by responsible managers. Given the size and nature of the authority manager confirmations should provide sufficient assurance over the existence of the Council's significant assets. However, for smaller assets it may help managers to review current fixed asset records before completing the annual certificates. We recommended that as part of closedown procedures responsible managers should review the Council's asset register prior to completing annual certificates confirming the existence of fixed assets.</li> <li>Officers considered current procedures to be adequate and robust but agreed to use action to remind Service Managers of the need to undertake detailed checks on the assets held on the register.</li> </ul>	<ul style="list-style-type: none"> <li>As part of 2015/16 closedown procedures the asset register was circulated to managers for review prior to completing annual certificates.</li> </ul>

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**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

There are no audit adjustments above the level we are required to report to those charged with governance, other than for the issues noted at "Misclassification and disclosure changes" later in this report.

## Unadjusted misstatements

We have reported at "Accounting policies, estimates and judgements" our consideration of potential misstatements in respect of estimated figures. The Audit Committee is required to approve management's proposed treatment.

Other than for the issues reported at "Accounting policies, estimates and judgements" we did not identify any misstatements during the audit above the level we are required to report which management has decided not to adjust.



## Misclassifications and disclosure changes

The table below provides details of disclosure adjustments identified during the audit above the level we are required to report. We have also agreed a number of other minor changes and narrative amendments to improve the presentation in the accounts. Officers have agreed to amend disclosure in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	288	Note 10: Pension Costs	Note 10 includes a table reconciling the opening and closing deficit on the pension fund. An amount of £288,000 had been omitted on this table at the line for unfunded pension payments. The total at the line for employer's contributions had been overstated by the same amount. There was no net impact on the pension fund deficit at 31.3.16.
2 Disclosure	87	Note 6: Non-Current Assets	Note 6 includes a table analysing when land and building assets were last revalued. At this table an asset for £87,000 which was last revalued in 2014/15 had been included on the line for 2015/16.

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## Section 3: Value for Money

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## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies a single criterion for auditors to evaluate:

*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.*

AGN03 provides examples of proper arrangements against three sub-criteria but states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

## Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our draft report is at Appendix B.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>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.</p>	<p>We have updated our understanding of your medium term financial planning framework and your planned approach to addressing future reductions in central government funding</p>	<p>The Council has a well-established Medium Term Financial Strategy (MTFS) covering a 10 year period. The MTFS continues to be updated at least annually and to be aligned with the Council's annual budget-setting process.</p> <p>The Council continues to face significant financial pressures associated with reductions in central government funding and the implications of a major business ratepayer going into administration in February 2015. The most recent revision of the MTFS has identified a funding gap of £1,825,000 over the lifetime of the plan. However, the Council continues to address this gap in a structured way, with the introduction of a comprehensive Savings and Transformation Strategy during 2015/16 and planned "tranches" of savings over the lifetime of the MTFS to allow time for effective project planning and implementation.</p> <p>The Council achieved its planned savings target of £200,000 for inclusion in 2016/17 base budgets and has a clear and credible framework for delivering the planned savings of £625,000 in 2017/18 base budgets anticipated under the MTFS.</p> <p>The outturn balance on the General Revenue Reserve at 31 March 2016 exceeded that forecast in the MTFS by £296,000. Current monitoring in 2016/17 indicates that the yearend contribution to the General Revenue Reserve may exceed that anticipated in the Council's budget. Overall the assumptions within the MTFS appear prudent.</p> <p>We concluded that although the Council faces significant pressures it continues to have a robust financial planning framework. There is a clear understanding of the financial risks facing the Council and of the implications of current decisions over the medium term.</p> <p>On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit, subject to completion of our work on grant claim certification. There were no fees for the provision of non audit services

### Fees

	Proposed fee £	Final fee £
Council audit	45,776	45,776
Grant certification (indicative)	18,084	18,084
<b>Total audit fees (excluding VAT)</b>	<b>63,860</b>	<b>63,860</b>

### 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.

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

The Council audit fee for the year is the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The grant certification fee for the year is the indicative scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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## Section 5: Communication of audit matters

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# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report 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 (<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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Appendices

# Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
	Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.	Low		

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONBRIDGE & MALLING BOROUGH COUNCIL**

We have audited the financial statements of Tonbridge & Malling Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and Transformation and auditor**

As explained more fully in the Statement of the Director of Finance and Transformation's Responsibilities, the Director of Finance and Transformation is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors..

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Transformation; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material

inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### **Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

### **Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Sarah Ironmonger  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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xx September 2016



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Your ref.	
Our ref	F/200/PR.77.1
Date	September 2016

Dear Sirs

**Tonbridge & Malling Borough Council**  
**Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with the audit of the financial statements of Tonbridge & Malling Borough Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Financial Services  
Gibson Building, Gibson Drive, Kings Hill, West Malling, Kent, ME19 4LZ  
Director of Finance and Transformation: Sharon Shelton BSc (Hons), CPFA  
Chief Financial Services Officer: Neil Lawley CPFA

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iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

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v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii Except as disclosed in the financial statements:

a there are no unrecorded liabilities, actual or contingent

b none of the assets of the Council has been assigned, pledged or mortgaged

c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for the issues brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further



disclosures relating to the Council's ability to continue as a going concern need to  
be made in the financial statements.

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### **Information Provided**

- xv We have provided you with:
  - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b additional information that you have requested from us for the purpose of your audit; and
  - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
  
- xvi We have communicated to you all deficiencies in internal control of which management are aware.
  
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
  
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
  - d management;
  - e employees who have significant roles in internal control; or
  - f others where the fraud could have a material effect on the financial statements.
  
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
  
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
  
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
  
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

## Approval

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The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 5 September 2016, with delegated authority granted to the Chairman to sign this letter, together with the Director of Finance and Transformation.

### Signed on behalf of the Council

Name.....  
Position Chair of the Audit Committee  
Date September 2016

Name.....  
Position Director of Finance and Transformation  
Date September 2016

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

05 September 2016

#### Report of the Chief Audit Executive

#### 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 April to July 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 2016/17 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2016/17 was approved by this Committee on the 5 April 2016. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2016/17 against the Plan and finalisation of any work brought forward from the 2015/16 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 items on the Plan, 24 were audits and two were proactive fraud reviews that would 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 One audit originally planned as an assurance review will now be undertaken as consultancy work, as discussed at the June Audit Committee meeting, to facilitate revision of the current Risk Management Strategy and development of a Strategic

Risk Register based on the Corporate Strategy. Training for the Committee on Risk Management is being planned for December with the revised Strategy to be presented at the January meeting.

- 1.2.4 The team have issued final reports and agreed management action plans in respect of two 2016/17 audits and two 2015/16 audits brought forward. One remaining audit brought forward requires additional follow-up work and will be reported in January. A draft report has been issued for a further audit with two audits currently underway and planning in progress for three more. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2016/17 Plan and the brought forward 2015/16 work, including a summary of findings where finalised, is attached to this report at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.2.5 The PSIAS require an independent External Quality Assessment be undertaken every five years; this was undertaken in June 2016 with the draft report received 18 August. More detail of the outcomes is provided in a separate paper on this agenda.

### ***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 2016/17 to date. The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The next full round of data matching is due to be submitted in October 2016 with matches to be returned in January 2017. An update will be provided at the April 2017 meeting of this Committee.
- 1.3.2 Annual data matching is undertaken between the electoral roll and Council Tax Single Person Discount, the most recent results were received in January 2016, 708 matches were received and of these 481 have been reviewed, 315 were closed with no further action required and 166 have been treated as referrals due to investigative work being required.
- 1.3.3 To date 430 matches have been closed with errors found in 77 cases. There are 51 cases being actively investigated and 227 matches that have yet to be reviewed (including 78 rising 18s).
- 1.3.4 The Kent Intelligence Network, a government funded partnership led by Kent County Council, goes live this month with the first meeting of the Board on 19 August 2016. The partnership will deliver a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI. The first round of data

matching is to be undertaken in September and it is expected that we will have results in October. A further update will be provided to the January Committee.

- 1.3.5 In addition, the 2015/16 proactive fraud-proofing review of the Council's arrangements in relation to new Housing Benefit applications is now complete with the results detailed at **[Annex 1]**. Meetings are being set up with key stakeholders to take forward other proactive work in the 2016/17 Audit and Fraud Plan, the first of these being with Licensing and Housing. A more comprehensive update on progress, key areas of fraud risk and work planned or undertaken will be provided to the January Audit Committee.

## **1.4 Investigating Fraud**

- 1.4.1 The Fraud Team is responsible for investigating all 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.
- 1.4.2 In 2016/17 to date, the Fraud Team have closed 144 cases and received a total of 181 referrals, 166 of which relate to NFI as detailed at 1.3.2; there are 61 ongoing investigations. The total amount of income due as a result of investigations to end of July is £28,679.50 with increased annual liability of £18,048.40. **[Annex 3]** summarises the results of investigations concluded in 2016/17 to date.

## **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.
- 1.5.3 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. 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

## 2016-17 Internal Audit Assurance Reviews

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Refunds	1	Complete	TBC	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - Procedures are in place to process genuine refunds and manage fraudulent or erroneous refunds. Documented procedure notes are in place with some minor updates required. Testing established that all refunds had been processed correctly and appropriately authorised.</p> <p>RMO2 - Procedures are in place to ensure that refunds are paid timely and the Authority's accounting systems are accurate following refunds made.</p> <p>Refund reports reviewed showed that the values were correct and reconciled to each stage of the process. Testing identified some anomalies in relation to separation of duties and authorisation limits however all refunds checked as part of the audit appeared to be genuine with no evidence of suspicious activity identified.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Public Health	1	Complete	TBC	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - TMBC deliver the outcomes from the core service specifications from KCC and actively work towards achieving the set targets of the funding agreement.</p> <p>The Healthy Living team fulfil the requirements of the Service Level Agreements from KCC's Public Health Team. However the performance of commissioned providers should be reviewed to ensure the accuracy and quality of the performance figures submitted.</p> <p>RMO2 - The spend for Public Health is adequately monitored against the Budget.</p> <p>The funding received from KCC is spent appropriately with the contingency of a reserve built up from consistent underspend in previous years.</p> <p>RMO3 - Delivery and outcomes of Public Health initiatives are accurately and consistently reported to management and KCC.</p> <p>The Healthy Living team fulfil the required reporting arrangements to KCC Public Health and appropriate internal and external boards and committees. Figures and statements reported are accurate and relevant.</p>
Debtors inc debt recovery	1	Draft	TBC	<p>This audit is reviewing the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - Invoiced income is appropriately managed to ensure that all income due is received, banked and reconciled timely</p> <p>RMO2 - The finance system is appropriately reconciled to ensure that any discrepancies are quickly identified and addressed</p> <p>RMO3 - Refunds are effectively managed to ensure that monies owed are paid promptly to maintain good customer relationships</p> <p>RMO4 - Effective processes are in place to identify and manage debts and write-offs (including aged debts), with appropriate reporting to management.</p>
Recruitment Strategy	1	Postponed to Q4		



<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
Risk Management	2	Planning		
Demand Management	2	Planning		
Financial Planning & Budget Monitoring	2	In Progress		
Capital Programme Monitoring	2	In Progress		
Asset Management of IT equipment, inc acquisitions and disposals	2			
Council Tax and Business Rates Recovery	2			
Corporate Governance	2	Planning		
Review of controls to prevent fraud in Business Rates	3			
Review of controls to prevent fraud in relation to grants and financial support	3			
Partnerships	3			
Payroll	3			
Business Continuity Planning – Emergency	3			
Housing Benefits Overpayments	3			
Project and Programme Management	3			

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
Complaints	3			
Safeguarding	3			
IT Strategy & Infrastructure	4			
Leisure Development – external provision	4			
Development Control	4			
Housing – Empty Property Follow Up	4			
Parking Income	4			
Local Plan	4			

## 2015-16 Internal Audit Assurance Reviews completed in 2016/17 to July

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Housing Benefit Assessments	4	Complete	TBC	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - Adequate arrangements exist to ensure all new claims are legitimate and the correct benefit is being paid to the correct person.</p> <p>Overall testing found that adequate measures exist in order to ensure new claims are legitimate; however training needs to be made available on a more regular basis.</p> <p>RMO2 - The right level of evidence is obtained and verified.</p> <p>Overall testing found that it would be helpful to enhance existing controls, for example through sample management checks of new claims and follow up with a review form once the claim has been in payment for an agreed period of time, to ensure that evidence obtained can be verified as still being applicable.</p> <p>RMO3 - All relevant claims are looked at for potential fraud risk.</p> <p>Overall testing found that assessors would benefit from fraud training when processing new claims.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Empty Properties	4	Complete	TBC	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - The role of Housing as corporate lead is clearly defined and there is evidence that the role is proactively fulfilled. Although the corporate lead role was not formally defined Housing have been providing an appropriate level of oversight and facilitation, including acting as Chair of the Empty Homes Group.</p> <p>RMO2 - The Corporate Working Group to tackle the issue of Empty Homes has been established with a clear terms of reference. It meets regularly and has clear action plans, monitoring and escalation processes in place. The Working Group has been established and a number of meetings have been held. The Terms of Reference has been drafted however further embedding is needed in relation to action plans and monitoring as the baseline number of properties was only recently agreed.</p> <p>RMO3 - Public awareness has been raised through appropriate marketing strategies and the reporting process is simple and accessible. The impact/success of both is monitored. Public awareness campaigns have been undertaken, however monitoring of the impact/success links to the further embedding needed at RM02.</p>

## 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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Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect benefit/Discount	Fraud Proven	Total due to be repaid to TMBC	Increase In liability (annual amount)	No of Penalty Charges	Total £ Penalty charge
Housing	3	2	1	0	£0.00	£0.00	0	£0.00
Council Tax Reduction	10	2	8	0	£5,967.05	£0.00	0	£0.00
SPD	127	80	47	0	£20,329.30	£18,048.40	39	£2,730.00
SPD & CTR	2	1	1	0	£1,562.18	£0.00	1	£70.00
NNDR	1	1	0	0	£0.00	£0.00	0	£0.00
DHP	0	0	0	0	£0.00	£0.00	0	£0.00
Council Tax Liability	1	0	1	0	£820.97	£0.00	0	£0.00
	144	86	58	0	£28,679.50	£18,048.40	40	£2,800.00

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

05 September 2016

#### Report of the Chief Audit Executive

#### Part 1- Public

#### Matters for Information

#### 1 EXTERNAL QUALITY ASSESSMENT

**This report informs Members of the results of the External Quality Assessment (EQA) of the Internal Audit service undertaken in May 2016.**

#### 1.1 Introduction

1.1.1 The Public Sector Internal Audit Standards (PSIAS), which came into force on 1<sup>st</sup> April 2013, require that an independent EQA is undertaken at least every five years. The EQA provides an overall opinion on Internal Audit's conformance with the standards and an individual rating of Generally Conforms, Partially Conforms or Does Not Conform against each of the 56 Standards (or not applicable where it is felt a particular standard does not apply), as well as a RAG-rated summary against each heading.

1.1.2 While the EQA is a requirement of the PSIAS perhaps more importantly it provides this Committee with essential information and an independent view on the performance of Internal Audit, areas for development and the level of conformance with professional requirements including the Code of Ethics that forms part of the PSIAS. This allows the Committee to feel confident that the assurance provided by the work Internal Audit undertakes is safe and can be relied on.

#### 1.2 Results

1.2.1 Currently the report is at draft stage while actions are agreed in relation to areas for development. For this reason the report is not attached here at this time, rather what follows is the Executive Summary which provides high level detail and demonstrates a positive outcome overall. A copy of the final report will be provided to members of the Committee as soon as it is available and hopefully in time for the Committee meeting.

#### EXECUTIVE SUMMARY

'The overall assessment resulting from the EQA is that the internal audit function "generally conforms to the IIA's professional standards". At a detailed level there

were only 8 out of 56 areas of partial conformance and some of these are quite minor. Internal audit is well valued and respected both by management and the audit committee.

The audit plans, the methodology, audit documentation and quality of work delivered are good and the team is keen to continue to develop.

Recommendations have been made for minor improvements. The team is well led by a very competent and experienced Chief Audit Executive. In the medium term the needs of the whole team in terms of resilience and breadth of expertise need to be considered in the context of its ability to utilise experienced personnel from Kent County Council Internal Audit or elsewhere.'

- 1.2.2 Proposed actions and timescales are being considered for the 8 Standards assessed as partially conforms and the report recognises that work was already in progress to address the majority of these areas through the 2016/17 Annual Audit Plan. It is therefore proposed that a follow-up review be undertaken to re-assess the partially conformant standards once actions are implemented thereby providing this Committee with further confidence in the work undertaken.

### **1.3 Legal Implications**

- 1.3.1 The PSIAS require that an independent external quality assessment is undertaken at least every five years.

### **1.4 Financial and Value for Money Considerations**

- 1.4.1 Not applicable for this report as the fee was previously agreed.

### **1.5 Risk Assessment**

- 1.5.1 Failure to undertake an EQA is not only non-conformance with the PSIAS but means the Committee has no independent view of the quality of Internal Audit work and how safe/reliable the assurance provided is.

Background papers:  
Nil

contact: Samantha Buckland

Samantha Buckland  
Chief Audit Executive

# Agenda Item 8

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 9

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 11

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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