

# TONBRIDGE & MALLING BOROUGH COUNCIL



## EXECUTIVE SERVICES

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### Chief Executive

Julie Beilby BSc (Hons) MBA

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

Contact: Committee Services  
[committee.services@tmbc.gov.uk](mailto:committee.services@tmbc.gov.uk)

15 January 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, 25th January, 2016 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

## A G E N D A

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To confirm as a correct record the Minutes of the meeting of Audit Committee held on 7 September 2015

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**Decisions to be taken under Delegated Powers**

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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.

**PART 2 - PRIVATE**

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

## **MEMBERSHIP**

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

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

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

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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, 7th September, 2015

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

Grant Thornton, External Auditors: Mr D Wells (Engagement Lead)

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

Apologies for absence were received from Councillors T Bishop and M Parry-Waller

### PART 1 - PUBLIC

#### **AU 15/41 DECLARATIONS OF INTEREST**

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

#### **AU 15/42 MINUTES**

With reference to Minute AU 15/39, an update was given on the number of claims received under the Repair and Renew Grant scheme which had closed at the end of July 2015. The Committee was advised that 144 residential and commercial properties had received grant aid under the scheme, totalling £637,000 with between £1.4m and £1.5m awarded over the four government flood support schemes.

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 22 June 2015 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE CABINET

#### **AU 15/43 TREASURY MANAGEMENT MID-YEAR REVIEW 2015/16**

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during the period April to July 2015/16. It also included a mid-year review of the Annual Investment Strategy and risk parameters. Members were invited to endorse the action taken by officers in respect of treasury management activity to date and to retain the current risk parameters.

Reference was made to Capita's latest forecast that the Bank Rate would remain at the current level of 0.5% for a further nine months before rising in the second quarter of 2016. However, investment income was above budget due to higher than expected cash flow and core fund balances and it was anticipated that the position would be maintained throughout the year, for which an explanation was given.

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

- (1) the action taken by officers in respect of treasury management activity for the period April to July 2015 be endorsed; and
- (2) the existing parameters intended to limit the Council's exposure to investment risks be retained.

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

**AU 15/44 EXTERNAL AUDITORS REPORT ON OUTCOME OF AUDIT OF STATEMENT OF ACCOUNTS 2014/15**

The report of the Director of Finance and Transformation introduced the external auditor's Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2014/15. It was noted that there were no material issues needing to be brought to the attention of the Committee and the Engagement Lead anticipated being able to issue an unqualified opinion in the near future.

Mr D Wells presented Grant Thornton's report which was provided as an annex and referred to the action plan. Attention was drawn to a recent ruling on business rates for purpose-built GP surgeries as a result of which a review had been undertaken of surgeries in the Borough and the provision for appeals increased in a revised Statement of Accounts. Members then asked a number of questions on the Audit Findings Report.

**RESOLVED:** That

- (1) the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2014/15, as set out at Annex 1 to the report, together with the associated action plan set out at paragraph 1.3.1 of the report be approved;
- (2) the Chairman and Director of Finance and Transformation be granted delegated authority to countersign the Letter of Representation at Annex 2 to the report when Grant Thornton are ready to issue their opinion;

- (3) the amendment to the Statement of Accounts 2014/15 to that reported to the June Committee following a recent ruling on business rates for purpose-built GP surgeries, as set out at paragraph 1.3.2 to the report, be noted and endorsed; and
- (4) the Chairman be authorised to sign the Accounts in the appropriate place.

### **MATTERS SUBMITTED FOR INFORMATION**

#### **AU 15/45 INTERNAL AUDIT AND FRAUD INVESTIGATION UPDATE**

The report of the Director of Finance and Transformation provided an update on the work of both the Internal Audit and Counter Fraud functions for the period April to July 2015. An update was given on progress against the 2015/16 Internal Audit Plan and finalisation of any work brought forward from the 2014/15 Plan. Members' questions regarding the audit of car park income were answered.

Details were given of the Council's activity in preventing and detecting fraud and corruption and the report updated regarding checking of matches received in the National Fraud Initiative exercise, 1,266 having been checked to date with 163 on-going investigations. Reference was also made to work undertaken with a number of external agencies in progressing investigations and a summary presented of the results of investigations concluded to date in 2015/16. Members discussed the identification and recovery of housing benefits overpayments and the potential costs to the Council as a result of recent government initiatives to identify housing benefit overpayments.

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

#### **AU 15/46 REVIEW OF OPERATIONAL RISK REGISTERS - JUNE 2015**

The report of the Director of Finance and Transformation updated the Committee on the results of reviews of the Operational Risk Registers carried out by Services in June 2015 from which it was noted that there had been little movement in the spread of risk. Members were advised that the framework for production of risk registers would be reviewed and informed by the Corporate Strategy currently being prepared for approval.

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

#### **AU 15/47 EXCLUSION OF PRESS AND PUBLIC**

The Chairman moved, it was seconded and

**RESOLVED:** That as public discussion would disclose exempt information, the following matters be considered in private.

**PART 2 - PRIVATE****MATTERS SUBMITTED FOR INFORMATION****AU 15/48 INSURANCE CLAIMS HISTORY: APRIL - JUNE 2015**

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

The Director of Finance and Transformation reported on the nature and volume of liability and property damage insurance claims submitted in the period April to June 2015.

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

The meeting ended at 8.26 pm

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

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

- 1 **TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2016/17**
- 1.1 **The report provides details of investments undertaken and returns achieved in the first nine months of the current financial year. The report also provides an introduction to the Treasury Management and Annual Investment Strategy for 2016/17. Members are invited to recommend adoption of the Strategy to Cabinet.**
- 1.2 **Introduction**
- 1.2.1 The Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable'.
- 1.2.2 The Act also requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. The latter sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 1.3 **Treasury Management Update**
- 1.3.1 In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Yields remain low in-line with the 0.5% Bank Rate. As a consequence, investment returns are expected to remain low relative to pre 2008 financial crisis levels throughout the remainder of this financial year and the next pending a rise in Bank Rate.
- 1.3.2 Cash flow funds are available on a temporary basis and their amount varies from month to month and during the course of each month dependent on the timing of receipts (collection of business rates, council tax, grants and other sources of income) and payments (to government, precepting authorities, housing benefit recipients, staff and suppliers). The authority holds £15.5m of core cash balances

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

1.3.3 At the end of December 2015 funds invested and interest earned is set out in the table below:

	<b>Funds invested at 31 Dec 2015</b>	<b>Average duration to maturity</b>	<b>Weighted average rate of return</b>	<b>Interest earned to 31 Dec 2015</b>	<b>Gross annualised return</b>	<b>LIBID benchmark</b>
	<b>£m</b>	<b>Days</b>	<b>%</b>	<b>£</b>	<b>%</b>	<b>%</b>
<b>Cash flow</b>	18.5	36	0.70	78,800	0.66	0.36 (7 Day)
<b>Core funds</b>	15.5	101	0.84	83,950	0.82	0.46 (3 Month)
<b>Total</b>	34.0	66	0.76	162,750	0.73	0.41 (Average)

1.3.4 Interest earned of £162,750 is £19,600 better than the revised budget for the same period and £36,550 better when compared to the original estimate for 2015/16. The authority also outperformed the LIBID benchmark by 32 basis points. The pattern of income generation is expected to be maintained to year end such that income for the financial year as a whole is likely to be in the region of £210,000, some £42,500 better than originally anticipated.

1.3.5 **Cash flow funds.** Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. Cash flow surpluses will typically be invested overnight in bank deposit accounts and money market funds to ensure sufficient short term liquidity to meet payment obligations. However, when cash surpluses permit, fixed term investments are undertaken to take advantage of the higher yields available. In April £5m nine month fixed term investments were undertaken yielding circa 0.8%. Mid-summer £6.5m six month fixed term investments were placed yielding an average of 0.7%. More recently £2.5m three month deposits, yielding 0.55%, have been placed to take advantage of this year's cash flow balances which peak in December.

1.3.6 A significant element of the Council's daily cash balance relates to the collection of business rates, the majority of which is paid over to Government, KCC and Kent Fire and Rescue. Whilst the Council is responsible for determining when to collect, Government determines when payments to themselves and others are due. In 2014/15 and earlier years payments to Government and others were spread over ten monthly instalments starting in April and ending the following January. For 2015/16 outgoing payments have been spread over 12 equal monthly instalments starting in April. The result has been higher daily balances, which have been available for longer, enabling the council to undertake more fixed

term investments than would otherwise have been the case. More, higher yielding, term deposits are the main reason for the additional income referred to above. The current payment profile to Government is being reviewed by them and there is no guarantee that it will be retained for 2016/17. An announcement is expected early in 2016.

- 1.3.7 **Core funds.** Following the transfer of all core fund investments from our external fund manager to in-house management in August 2014, the opportunity to enhance yield by extending duration has continued. The current core fund portfolio includes a mix of nine and twelve month deposits together with one high yielding call account. The pattern of maturities, predominantly monthly from December to April, is designed to ensure additional liquidity is available to the Council to support spending towards the end of the financial year and to take advantage of improved offers from banks as we approach a rise in Bank Rate. Thus far this financial year the level of income generated from core funds, whilst a little higher, is still broadly in-line with original expectations.
- 1.3.8 **Current investment position.** A full list of investments held on 31 December 2015 is provided at **[Annex 1]** and a copy of our lending list of the same date is provided at **[Annex 2]**.
- 1.3.9 **Capita Benchmarking Data.**
- 1.3.10 The Council takes advantage of Capita's benchmarking facility which enables us to gauge our performance against Capita's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 30 September 2015 our return at 0.79% (purple diamond) was above the average of 0.68% 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).

## 1.4 Treasury Management and Annual Investment Strategy 2016/17

- 1.4.1 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. In common with the 2015/16 Annual Investment Strategy, the Strategy proposed for 2016/17 and detailed at **[Annex 4]** 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.

1.4.2 The strategy also limits the type of instrument (e.g. term deposits, floating rate notes, etc.) that can be used and establishes a maximum investment duration (2 years other than Gilts). Given our overriding investment priorities of security of capital and liquidity the Council does not invest in equities.

1.4.3 At the present time the Council has access, both directly and via brokers, to an adequate number of high credit rated financial institutions allowing an appropriate level of diversification. Our cash flow forecasting aims to ensure the Council has sufficient liquidity to meet payment obligations. Excess liquidity is avoided by using term deposits to generate additional yield when daily cash balances permit. Whilst the 2016/17 Strategy has been updated to reflect the current economic environment and latest interest rate forecast, the risk parameters set out in the 2015/16 approved strategy have been retained.

## **1.5 Legal Implications**

1.5.1 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.

1.5.2 This report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.



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

- 1.6.1 The Bank Rate has remained at a historic low of 0.5% for over 7 years. Capita, our treasury advisors, in common with other market forecasts, anticipate an interest rate rise mid-2016.
- 1.6.2 At the end of December investment income is £19,600 better than the revised budget for the same period, £36,550 better when compared to the original estimate. Income for the 2015/16 financial year as a whole is likely to be in the region of £210,000, some £42,500 better than originally expected.
- 1.6.3 The higher level of income is largely attributed to a more favourable pattern of payments to Government and other recipients of business rates collected by the Council. The payment profile applying to the 2016/17 financial year may be less favourable and has yet to be announced by Government.
- 1.6.4 In anticipation of a Bank Rate rise part way through 2016 a modest uplift over current returns is built into the investment income projection for 2016/17. Cash flow returns in 2016/17 are expected to be 0.75% against a return of 0.66% at the end of December. Core funds are expected to generate a return of 1.0% in 2016/17 against a return of 0.82% at the end of December. The 2016/17 estimates include total investment income of £206,000.
- 1.6.5 Investment performance is monitored against relevant benchmarks and compared to other local authorities using benchmarking data provided by Capita.

## **1.7 Risk Assessment**

- 1.7.1 Capita are employed to advise on the content of the Treasury Management and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.
- 1.7.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits need to be established to ensure an appropriate level of diversification.
- 1.7.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2016/17 Strategy have been minimised.

## **1.8 Equality Impact Assessment**

- 1.8.1 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.

## 1.9 Recommendations

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

- 1) note the treasury management position as at 31 December 2015;
- 2) adopts the Treasury Management and Annual Investment Strategy for 2016/17 set out at **[Annex 4]**.

Background papers:

contact: Mike Withey

Nil

Sharon Shelton  
Director of Finance & Transformation

## Investment Summary as at 31 December 2015

Counterparty	Sovereign	Fitch Credit rating		Capita Credit Worthiness/ Suggested Duration	Investment						Instrument type	Core Fund £	Cash Flow £
		Long Term	Short Term		Start Date	End Date	Actual Duration	Amount Invested £	Return %	Proportion of total %			
Bank of Scotland	UK	A+	F1	6 months	14/04/2015	14/01/2016	9 months	1,000,000	0.80%		Fixed deposit	1,000,000	
Bank of Scotland	UK	A+	F1	6 months	21/04/2015	21/01/2016	9 months	1,000,000	0.80%		Fixed deposit		1,000,000
<b>Bank of Scotland Total</b>								<b>2,000,000</b>		5.88%			
Barclays Bank	UK	A	F1	6 months	28/04/2015	28/01/2016	9 months	1,000,000	0.80%		Fixed deposit		1,000,000
Barclays Bank	UK	A	F1	6 months	29/05/2015	29/02/2016	9 months	1,250,000	0.81%		Fixed deposit	1,250,000	
Barclays Bank	UK	A	F1	6 months	17/09/2015	17/03/2016	6 months	1,000,000	0.71%		Fixed deposit		1,000,000
Barclays Bank	UK	A	F1	6 months	22/07/2015	22/04/2016	9 months	1,250,000	0.86%		Fixed deposit	1,250,000	
<b>Barclays Bank Total</b>								<b>4,500,000</b>		13.24%			
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	31/12/2015	04/01/2016	n/a	1,935,000	0.53%		Call - MMF		1,935,000
<b>BNP Paribas MMF Total</b>								<b>1,935,000</b>		5.69%			
Goldman Sachs Int'l Bank	UK	A	F1	6 months	20/08/2015	22/02/2016	6 months	2,000,000	0.75%		Fixed deposit		2,000,000
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	
<b>Goldman Sachs Int'l Bank Total</b>								<b>4,000,000</b>		11.77%			
Lloyds Bank	UK	A+	F1	6 months	21/04/2015	21/01/2016	9 months	1,000,000	0.80%		Fixed deposit		1,000,000
Lloyds Bank	UK	A+	F1	6 months	14/04/2015	13/04/2016	1 year	1,000,000	1.00%		Fixed deposit	1,000,000	
Lloyds Bank	UK	A+	F1	6 months	24/07/2015	25/04/2016	9 months	500,000	0.80%		Fixed deposit	500,000	
Lloyds Bank	UK	A+	F1	6 months	09/12/2015	09/03/2016	3 months	500,000	0.57%		Fixed deposit		500,000
<b>Lloyds Bank Total</b>								<b>3,000,000</b>		8.82%			
NatWest Deposit Account	UK	BBB+	F2	1 year	31/12/2015	04/01/2016	n/a	10,000	0.25%		Call		10,000
<b>National Westminster Bank Total</b>								<b>10,000</b>		0.03%			
Nordea Bank AB	Sweden	AA-	F1+	1 year	24/07/2015	22/01/2016	6 months	500,000	0.64%		CD		500,000
Nordea Bank AB	Sweden	AA-	F1+	1 year	03/12/2015	03/03/2016	3 months	1,000,000	0.55%		CD		1,000,000
Nordea Bank AB	Sweden	AA-	F1+	1 year	23/12/2015	23/03/2016	3 months	1,000,000	0.55%		CD		1,000,000
<b>Nordea Bank AB Total</b>								<b>2,500,000</b>		7.35%			
Nationwide Building Society	UK	A	F1	6 months	29/04/2015	29/01/2016	9 months	1,000,000	0.80%		Fixed deposit		1,000,000
Nationwide Building Society	UK	A	F1	6 months	29/05/2015	29/02/2016	9 months	1,250,000	0.79%		Fixed deposit	1,250,000	
Nationwide Building Society	UK	A	F1	6 months	17/09/2015	17/03/2016	6 months	1,000,000	0.66%		Fixed deposit		1,000,000
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	
<b>Nationwide Building Society Total</b>								<b>4,500,000</b>		13.24%			
Rabobank	Netherlands	AA-	F1+	1 year	13/08/2015	12/02/2016	6 months	1,000,000	0.65%		CD		1,000,000
<b>Rabobank Total</b>								<b>1,000,000</b>		2.94%			
Santander UK Deposit Account	UK	A	F1	6 months	31/12/2015	04/01/2016	n/a	5,051,000	0.80%		Call	2,451,000	2,600,000
<b>Santander UK Total</b>								<b>5,051,000</b>		14.86%			
Royal Bank of Scotland	UK	BBB+	F2	1 year	23/03/2015	23/03/2016	1 year	1,000,000	0.90%		CD	1,000,000	
<b>Royal Bank of Scotland Total</b>								<b>1,000,000</b>		2.94%			
Standard Chartered Bank	UK	A+	F1	6 months	08/07/2015	08/01/2016	6 months	500,000	0.72%		CD		500,000
Standard Chartered Bank	UK	A+	F1	6 months	24/04/2015	25/01/2016	9 months	1,000,000	0.80%		CD		1,000,000
Standard Chartered Bank	UK	A+	F1	6 months	05/06/2015	04/03/2016	9 months	1,000,000	0.80%		CD	1,000,000	
Standard Chartered Bank	UK	A+	F1	6 months	10/06/2015	10/03/2016	9 months	1,500,000	0.81%		CD	1,500,000	
Standard Chartered Bank	UK	A+	F1	6 months	18/09/2015	18/03/2016	6 months	500,000	0.73%		CD		500,000
<b>Standard Chartered Bank Total</b>								<b>4,500,000</b>		13.24%			
<b>Total invested</b>								<b>33,996,000</b>		<b>100.00%</b>		<b>15,451,000</b>	<b>18,545,000</b>

Number of investments	30	Average investment value £		1,133,000	
Number of counter parties	12	Average counter party investment £		2,833,000	
<b>Group exposures:</b>		<b>Core £</b>	<b>Cash £</b>	<b>Combined £</b>	<b>%</b>
<b>RBS + National Westminster (UK Nationalised 25% or £3.3m per fund)</b>		1,000,000	10,000	1,010,000	2.97
<b>Bank of Scotland + Lloyds (20% or £2.6m per fund)</b>		2,500,000	2,500,000	5,000,000	14.71

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

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## Tonbridge and Malling Borough Council Lending List

Checked against Capita Duration Matrix dated 31/12/15								
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	
Rabobank (Cooperatieve Centrale Raiffeisen Boerenleenbank BA)	Netherlands	AA+	AA-	F1+	£2.6m	£2.6m	£5.2m	12 months
ING Bank	Netherlands	AA+	A	F1	£2.6m	£2.6m	£5.2m	6 months
Nordea Bank AB	Sweden	AAA	AA-	F1+	£2.6m	£2.6m	£5.2m	12 months
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	£2.6m	£2.6m	£5.2m	12 months
Bank of Scotland Group limit with BOS and Lloyds of £2.6m / £5.2m	UK	AA+	A+	F1	£2.6m	£2.6m	£5.2m	6 months
Barclays Bank	UK	AA+	A	F1	£2.6m	£2.6m	£5.2m	6 months
Goldman Sachs International Bank	UK	AA+	A	F1	£2.6m	£2.6m	£5.2m	6 months
HSBC Bank	UK	AA+	AA-	F1+	£2.6m	£2.6m	£5.2m	12 months
Lloyds Bank Group limit with BOS and Lloyds of £2.6m / £5.2m	UK	AA+	A+	F1	£2.6m	£2.6m	£5.2m	6 months
Santander UK	UK	AA+	A	F1	£2.6m	£2.6m	£5.2m	6 months
Standard Chartered Bank	UK	AA+	A+	F1	£2.6m	£2.6m	£5.2m	6 months
Nationwide Building Society	UK	AA+	A	F1	£2.6m	£2.6m	£5.2m	6 months
National Westminster Bank [3] Group limit with National Westminster and RBS of £3.3m / £6.6m	UK	AA+	BBB+	F2	£3.3m	£3.3m	£6.6m	12 Months
The Royal Bank of Scotland [3] Group limit with National Westminster and RBS of £3.3m / £6.6m	UK	AA+	BBB+	F2	£3.3m	£3.3m	£6.6m	12 Months
UK Debt Management Office including Treasury Bills	UK	AA+	N/A	N/A	No limit	No limit	No limit	N/A
UK Treasury Sovereign Bonds (Gilts)	UK	AA+	N/A	N/A	N/A	£6.7m	£6.7m	N/A
UK Local Authorities	UK	AA+	N/A	N/A	£2.6m	£2.6m	£5.2m	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-.

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

[3] UK nationalised / semi-nationalised.

Money Market Funds						
Minimum investment criteria one of AAA-mf, AAAmmf or AAAM						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAM	£2.6m	£2.6m	£5.2m
BNP Paribas	-	-	AAAM	£2.6m	£2.6m	£5.2m
Goldman Sachs	AAA-mf	AAAmmf	AAAM	£2.6m	£2.6m	£5.2m
Deutsche Fund	AAA-mf	-	AAAM	£2.6m	£2.6m	£5.2m
Standard Life (Ignis)	-	AAAmmf	AAAM	£2.6m	£2.6m	£5.2m
Morgan Stanley	AAA-mf	AAAmmf	AAAM	£2.6m	£2.6m	£5.2m
Federated Prime Rate	-	AAAmmf	AAAM	£2.6m	£2.6m	£5.2m
Insight Liquidity Group limit for IL and ILP of £2.6m / £5.2m	-	AAAmmf	AAAM	£2.6m	£2.6m	£5.2m

Enhanced Cash Funds						
Minimum investment criteria AAA						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus Group limit for IL and ILP of £2.6m / £5.2m	-	-	AAAf/S1	£2.6m	£2.6m	£5.2m

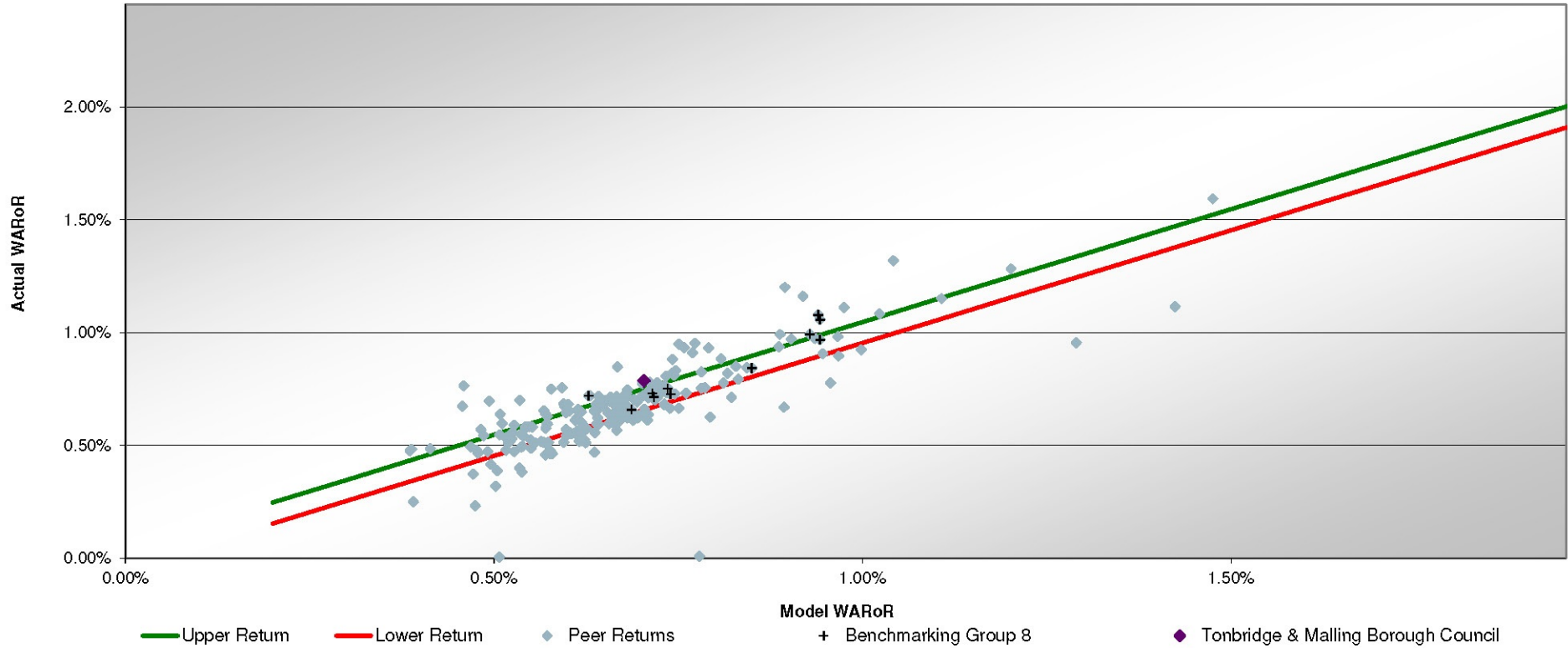
Approved by Director of Finance & Transformation 4th January 2016	No Change
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Tonbridge & Malling Borough Council

Population Returns against Model Returns

September 2015



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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.79%	0.70%	0.08%	0.66%	0.75%	Above

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## Treasury Management and Annual Investment Strategy 2016/17

### 1 Introduction

#### 1.1 Treasury management is defined as:

'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'.

#### 1.2 The strategy covers:

- Statutory and regulatory requirements
- Balanced budget requirement
- Prudential and treasury Indicators
- Borrowing requirement
- Current treasury position
- Prospects for interest rates
- Credit rating agencies
- Investment policy
- Creditworthiness policy
- Country, counterparty and group exposure limits
- Cash flow and core fund Investment strategies
- Year end investment report
- Policy on use of external service providers.

### 2 Statutory and regulatory requirements

2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.2 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy

which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

- 2.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009 (The Code of Practice).
- 2.4 The Code of Practice was adopted by this Council on 18 February 2010. In preparing this strategy due regard has also been given to the Code's subsequent revisions.
- 2.5 The primary requirements of the Code 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, including the Annual Investment Strategy, for the year ahead; a Mid-year Review 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 the Treasury Management Strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.
- 2.6 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]**.

### **3 Balanced budget requirement**

- 3.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in

capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

#### **4 Prudential and treasury indicators**

- 4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.
- 4.2 The Council must have regard to the Prudential Code when setting the 'Authorised Limit', which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.
- 4.3 Whilst termed an 'Affordable Borrowing Limit', the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The 'Authorised Limit' is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.
- 4.4 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 30 September 2003 and the revised 2009 Code was adopted by the full Council on 18 February 2010. Subsequent Code amendments are also complied with.
- 4.5 Prudential and Treasury Indicators relevant to setting an integrated treasury management strategy are set out in **[Appendix 2]**.

#### **5 Borrowing requirement**

- 5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary. All capital expenditure in 2016/17 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assts.

- 5.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

## 6 Current treasury position

- 6.1 The Council is debt free and as such the overall treasury position at 31 December 2015 comprised only investments which totaled £34m generating an average return of 0.76%.

## 7 Prospects for interest rates

- 7.1 The Council has appointed Capita Asset Services as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. **[Appendix 3]** draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. Capita's expectation for the Bank Rate for the financial year ends (March) is:

- 2015/ 2016 0.50%
- 2016/ 2017 1.00%
- 2017/ 2018 1.75%
- 2018/ 2019 2.00%

- 7.2 **UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a rebound in quarter 2 to +0.7% (+2.4% y/y) before weakening again to +0.5% (2.3% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 - 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

- 7.3 The Inflation Report was also notably subdued in respect of the forecasts for inflation which was expected to get back up to the 2% target over a 2 - 3 year time horizon. The increase in the forecast for

inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 and early 2016 but a second, more recent round of falls in fuel prices will now delay any significant rise in inflation: this is now expected to get back to around 1% in the second half of 2016 and approach 2% in 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will start to increase the Bank Rate.

- 7.4 **USA.** The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 prepared the way for the Federal Reserve to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.
- 7.5 **EZ.** In the Eurozone, the ECB commenced a significant €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and has led to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the limited progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen the QE programme by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.
- 7.6 **Greece.** During July, Greece finally agreed to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. The surprise general election in September gave the Syriza government a mandate to stay in power to implement the austerity measures. Doubt remains

as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro is still a possibility.

- 7.7 **Portugal and Spain.** The general elections in September and December respectively have opened up new areas of political risk where the previous right wing, reform focused, pro-austerity mainstream political parties have lost power. A left wing coalition has taken power in Portugal which is heading towards unravelling previous pro-austerity reforms. This outcome could be replicated in Spain and has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.
- 7.8 A more detailed view of the current economic background, provided by Capita, is contained in **[Appendix 4]**.

## **8 Credit rating agencies**

- 8.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings 'uplift' in anticipation of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these 'uplifts' with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have 'netted' each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the Fitch 'Support and Viability' ratings and have seen Moody's 'Financial Strength' rating withdrawn by the agency.
- 8.2 In keeping with the agencies' new methodologies, the rating element of Capita's credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this represents a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to the Capita process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.
- 8.3 The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. In the early part

of the Financial crisis the Council incorporated the highest sovereign rating (AAA) into its credit criteria. The new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of AA-. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of, and sentiment towards, a financial institution.

- 8.4 These rating agency changes do not reflect any changes in the underlying status or credit quality of an institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the 'support' phase of the financial crisis.

## **9 Investment policy**

- 9.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, and then return.
- 9.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.
- 9.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and



political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

- 9.4 Other information sources used will include the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.
- 9.5 Investment instruments identified for use in the financial year are listed in **[Appendix 5]** under the 'specified' and 'non-specified' investments categories. Counterparty limits are detailed in section 11 below.

## **10 Creditworthiness policy**

- 10.1 The creditworthiness service provided by Capita has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings are supplemented using the following overlays:
- credit watches and credit outlooks from credit rating agencies;
  - Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
  - sovereign ratings to select counterparties from only the most creditworthy countries.
- 10.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to inform the maximum duration of an investment and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.
- 10.3 The selection of counterparties with a high level of creditworthiness is achieved by selecting institutions down to a minimum durational band within Capita's weekly credit list of potential counterparties (worldwide). Subject to an appropriate sovereign and counterparty rating the Council uses counterparties within the following durational bands:



Yellow	5 years
Purple	2 years
Blue	1 year (nationalised or part nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 Days

10.4 The Council does not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties. Moody's tends to be more aggressive in giving low ratings than the other two agencies and adopting the CIPFA approach may leave the Council with too few banks on its approved lending list. The Capita creditworthiness service uses a wider array of information than just primary ratings and in combination with a risk weighted scoring system undue preponderance is not given to any one agency's ratings.

10.5 All credit ratings are reviewed weekly and monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita creditworthiness service.

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.
- In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.

10.6 Sole reliance is not placed on the use of the Capita service. In addition the Council uses market information including information on any external support for banks to assist the decision making process.

## 11 Country, counterparty and group exposure limits

11.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- as determined by all three rating agencies - Fitch, Moody's and Standard and Poor's. The list of countries that qualify using this credit criteria as at the date of this report are shown in **[Appendix 6]**. The list will be amended in accordance with this policy should ratings change.

11.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between

risk and practicality and are applicable to both cash flow and core fund investment.

Country, Counterparty and Group exposure	Maximum Proportion of Cash Flow and Core Funds
UK Sovereign (subject to a minimum rating of AA- )	100%
Each non-UK Sovereign rated AA- or better	20%
Group limit excluding UK nationalised / part nationalised banks	20%
Each counterparty rated Fitch A-, F1 (green excluding CDS using Capita's credit methodology) or better	20%
Each UK nationalised or part nationalised bank / group	25%
Each AAA multilateral / supranational bank	20%
Each AAA rated bond fund / gilt fund / enhanced cash fund / government liquidity fund / equity fund or property fund subject to maximum 20% exposure to all such funds	10%
Each money market fund rated Moody's AAAMf or Fitch AAAMmf, or Standard & Poor's AAAM	20%
Non-specified investments over 1 year duration	60%

11.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. For cash flow investment the limits identified in paragraph 11.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year.

## **12 Cash flow and core fund investment strategies**

12.1 Funds available for investment are split between cash flow and core funds. Cash flow funds are generated from the collection of council tax, business rates and other income streams. They are consumed during the financial year to meet payments to precepting authorities and government (NNDR contributions) and to meet service delivery costs (benefit payments, staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year

places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Council's revenue and capital reserves and are generally available to invest for durations in excess of one year.

- 12.2 **Cash flow investments.** The average daily cash flow balance throughout 2016/17 is expected to be £11.0m with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash funds. Cash balances available for more than 3 months may be transferred to the core fund portfolio if a better overall return for the Council can be achieved by doing so.
- 12.3 In compiling the Council's estimates for 2016/17 a return on cash flow investments of 0.75% has been assumed. This return is a modest uplift on the return being achieved in 2015/16 (0.66% to December 2015) and anticipates the Bank Rate will rise above the current 0.5% summer 2016.
- 12.4 **Core fund investments.** Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each year (approximately £2m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2016/17 is expected to be £12m.
- 12.5 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 and are within the risk parameters set by this Council.
- 12.6 In compiling the Council's estimates for 2016/17 a return on core fund investments of 1.0% has been assumed. This return anticipates an uplift in yield will be generated over cash flow investment expectations and offers a modest increase on the current core fund return (0.82% to December 2015). Subject to the credit quality and exposure limits outlined in paragraph 11.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts and enhanced cash funds will also be used if these offer favourable returns relative to term deposits.

**13 Year end investment report**

13.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

**14 Policy on the use of external service providers**

14.1 The Council uses Capita as its external treasury management advisors.

14.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.

14.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

**January 2016**

**Appendices**

1. Treasury management scheme of delegation
2. Prudential and Treasury indicators
3. Interest rate forecasts
4. Economic background provided by Capita Asset Services
5. Specified and Non-specified Investments
6. Approved countries for investments

## Appendix 1 Treasury management scheme of delegation

### Full Council

- Budget approval.
- Approval of treasury management policy.
- Approval of the Annual Treasury Management Strategy and Annual Investment Strategy.
- Approval of amendments to the Council's adopted clauses, Treasury Management Policy and the Annual Treasury Management Strategy and Annual Investment Strategy.
- Approval of the treasury management outturn report.

### Cabinet

- Budget consideration.
- Approval of Treasury Management Practices.
- Approval of the division of responsibilities.
- Approval of the selection of external service providers and agreeing terms of appointment.
- Acting on recommendations in connection with monitoring reports.

### Audit Committee

- Reviewing the Annual Treasury Management Strategy and Annual Investment Strategy and making recommendations to Cabinet and Council.
- Receive reports on treasury activity at regular intervals during the year and making recommendations to Cabinet.
- Reviewing treasury management policy, practices and procedures and making recommendations to Cabinet and Council.

### Finance, Innovation and Property Advisory Board

- Receiving budgetary control reports at regular intervals that include treasury management performance.

### The S151 (responsible) officer

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit, and liaising with external audit.
- Recommending the appointment of external service providers.

## Appendix 2 Prudential and Treasury Indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2016/17 report that is to be submitted to Cabinet on 11 February 2016.

The treasury management indicators are as set out in the table below:

TREASURY MANAGEMENT INDICATORS	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	11,466 (58.9%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	Nil (0%)	60% of core funds			

Maturity structure of fixed rate borrowing during 2015/16 - 2018/19	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

**Appendix 3 Interest Rate Forecasts - January 2016**

<b>Capita Asset Services Interest Rate View</b>														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
<b>Bank Rate View</b>	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
<b>Bank Rate</b>														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
<b>5yr PWLB Rate</b>														
Capita Asset Services	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
<b>10yr PWLB Rate</b>														
Capita Asset Services	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
<b>25yr PWLB Rate</b>														
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
<b>50yr PWLB Rate</b>														
Capita Asset Services	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

**Appendix 4 Economic Background Provided by Capita Asset Services**

**UK.** UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y/y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y/y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are



sure that growth was securely embedded and 'no inflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

The Government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018/19 to achieving that in 2019/20 and this timetable was maintained in the November Budget.

**USA.** GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.1% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Federal Reserve (Fed) would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was very strong and November was also reasonably strong; this, therefore, opened up the way for the Fed to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

**EZ.** In the Eurozone, the ECB commenced a significant €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y/y) but came in at +0.4% (+1.5% y/y) in quarter 2 and +0.3% in quarter 3. However, the limited progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen the QE programme by extending its time frame and / or increasing its size in order to get inflation up from the current

level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

**Greece.** During July, Greece finally agreed to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. The surprise general election in September gave the Syriza government a mandate to stay in power to implement the austerity measures. Doubt remains as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro is still a possibility.

**Portugal and Spain.** The general elections in September and December respectively have opened up new areas of political risk where the previous right wing, reform focused, pro-austerity mainstream political parties have lost power. A left wing coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

**China and Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its 'arrows' of reform but has hesitated about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Some commentators are concerned that recent growth figures may lack accuracy and be hiding a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that many would envy. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

**Emerging countries.** There are also concerns about the vulnerability of some emerging countries and their corporates. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors' strategy, and the reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and / or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

**Capita Asset Services forward view.** Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:

- Uncertainty around the risk of a UK exit from the EU.
- US Federal Reserve increases in the Fed funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

## Appendix 5 Specified and Non-specified Investments

All specified and non-specified Investments will be:

Subject to the sovereign, counterparty and group exposure limits identified in the Annual Investment Strategy.

Subject to the duration limit suggested by Capita **(+3 months for UK Financial Institutions)** at the time each investment is placed.

Subject to a maximum of 60% of core funds, in aggregate, being held in non-specified investments at any one time.

Sterling denominated.

**Specified Investments** (maturities up to 1 year):

Investment	Minimum Credit Criteria
UK Debt Management Agency Deposit Facility	UK Sovereign AA-
Term deposits - UK local authorities	UK Sovereign AA-
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 or Green excluding CDS
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1, or Green excluding CDS
UK Treasury Bills	UK Sovereign AA-
UK Government Gilts	UK Sovereign AA-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK govt)	AAA

<b>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):</b>	
1. Money Market Funds	At least one of : Moody's AAAmf, Fitch AAAmf, Standard and Poor's AAAM
2. Government Liquidity Funds	AAA
3. Enhanced Cash Funds	AAA
4. Bond Funds excluding corporate bonds	AAA
5. Gilt Funds	AAA
6. Equity Funds	AAA
7. Property Funds	AAA

**Non-specified Investments** (maturities in excess of 1 year and any maturity if not included above):

<b>Investment</b>	<b>Minimum Credit Criteria</b>	<b>Max duration to maturity</b>
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign AA-	2 years
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1(Green)	2 years
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years

**Annex 4**

Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A- F1 (Green)	2 years
Commercial paper - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Commercial paper - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	5 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other than the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign AA-	Max of 25% 5 years
UK Government Gilts	UK Sovereign AA-	Max of 25% 10 years

**Accounting treatment of investments**

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

**Appendix 6          Approved countries for investments**

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a sovereign rated as a minimum AA- by each of the three rating agencies - Fitch, Moody's and Standard and Poor's.

This list will be reviewed and amended if appropriate on a weekly basis by the Director of Finance and Transformation.

As of 31 December 2015 sovereigns meeting the above requirement which also have banks operating in sterling markets with credit ratings of green or above on the Capita Asset Services' Credit Worthiness List of that date were:

AAA	Australia Canada Denmark Germany Netherlands Singapore Sweden Switzerland
AA+	Finland UK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium



## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Delegated

### 1 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

This report informs Members of the outcome of the annual review of the Council's Anti-Fraud Policies and Whistleblowing Policy.

#### 1.1 Introduction

1.1.1 The Anti-Fraud and Corruption Policy is used to provide structure to the combating of fraud and corruption, which the Council may be subject to. In addition, separate policies have been developed specifically for housing benefit fraud and for council tax fraud including council tax reduction, discounts and exemptions.

1.1.2 The Whistleblowing Policy provides employees and Members with information about how they may report concerns regarding breaches of laws, regulations, policies or procedures committed by other employees or Members of the Council. It also outlines how the Council will deal with those concerns once they have been reported.

#### 1.2 Anti-Fraud Policies

1.2.1 The Anti-Fraud Policies were last reviewed by the Committee in January 2015. This latest review found that other than some minor textual changes and recognition that the Department for Work and Pensions now had responsibility for the investigation of housing benefit fraud no substantive changes were required to the policies.

A copy of the Anti-Fraud and Corruption Policy, Housing Benefit Anti-Fraud Policy and Council Tax Reduction, Discounts and Exemptions Anti-Fraud Policy are attached at **[Annex 1, 2 and 3]** respectively.

### **1.3 Whistleblowing Policy**

1.3.1 The Whistleblowing Policy was last reviewed by the Committee in April 2015. This latest review found that other than some minor textual changes no substantive changes were required to the policy.

1.3.2 A copy of the Whistleblowing Policy is attached at **[Annex 4]**.

### **1.4 Action Following Approval of Policies**

1.4.1 The policies, once approved, will be circulated to all staff with computer access using Netconsent and made available on the Council website.

### **1.5 Legal Implications**

1.5.1 These policies are not mandatory but do comply with best practice and refer to the relevant legislation where appropriate.

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

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

1.6.2 These policies comply with recognised best practice and reinforce the zero tolerance stance of the Council towards fraud. Effective fraud prevention minimises losses to the Council through fraud.

1.6.3 Providing clear guidelines to staff on how they may report concerns of inappropriate conduct or fraud strengthen the Council's zero tolerance approach to fraud and corruption.

### **1.7 Risk Assessment**

1.7.1 The policies reflect best practice and the culture of the Council is aimed at minimising the risk of fraud. The policies are supported by the internal control mechanisms in place and form part of the overall control environment of the Council.

1.7.2 While there is no statutory requirement to have an appropriate mechanism for dealing with whistleblowing, it is relevant to helping the Council comply with associated law. Failure to have an adequate whistleblowing mechanism carries significant reputational risks.

## 1.8 Equality Impact Assessment

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

## 1.9 Recommendations

1.9.1 Members are asked to **approve**, subject to any required amendments, the Anti-Fraud Policies attached at **[Annex 1, 2 and 3]**.

1.9.2 Members are asked to review the Whistleblowing Policy attached at **[Annex 4]** and subject to any required amendments **recommend** that it is endorsed by the next General Purposes Committee.

Background papers:

contact: Samantha Buckland

Nil

Sharon Shelton

Director of Finance and Transformation

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# **ANTI-FRAUD & CORRUPTION POLICY**



**January 2016**

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## **Tonbridge and Malling Borough Council Anti-Fraud & Corruption Policy**

### **1 INTRODUCTION**

- 1.1 Tonbridge & Malling Borough Council is opposed to all forms of fraud and corruption, including bribery, and is determined to protect itself from such actions whether attempted from within the Council or by an outside individual, group or organisation.
- 1.2 The Council recognises that fraud, bribery and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. Such activity may therefore impact on the ability of the Council to achieve its corporate objectives, as set out in its Corporate Plan. In response to this, the Anti-Fraud & Corruption Policy is designed to:
- encourage prevention;
  - promote detection; and
  - support investigation.

### **2 DEFINITIONS OF FRAUD, BRIBERY & CORRUPTION**

- 2.1 Fraud is defined as:

*The intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain.*

- 2.2 This may involve:

- Dishonestly making a false representation to make a gain, to cause loss or to expose another to a risk of loss.
- Dishonestly failing to disclose information for which there is a legal duty to disclose, in order to make a gain, to cause loss or to expose another to a risk of loss.
- Dishonestly abusing a position, where the person occupying the position is expected to safeguard, or not act against, financial interests to make a gain, to cause loss or to expose another to a risk or loss.

- 2.3 Fraud can be any act of deception which acts to the financial detriment of the Council. Acts such as misappropriation or petty theft

will therefore also be considered by the Council as fraud and treated under the arrangements within this Policy.

2.4 Bribery is defined as:

*The offering, giving or soliciting of an inducement or reward which may influence a person to perform a function or activity improperly.*

2.5 Corruption is defined as:

*The giving and/or acceptance of an inducement or reward which influences the action of any person.*

### **3 THE COUNCIL'S COMMITMENT**

3.1 In developing and operating its anti-fraud, bribery and corruption arrangements, the Council will:

- Where possible, take action to prevent fraud, bribery and corruption activity occurring.
- Encourage the detection of such activity.
- Promote Member, officer, the general public and other stakeholder awareness of fraud, bribery and corruption.
- Offer specific training on these issues to officers in key positions within the organisation.
- Encourage Members, officers, the general public and other stakeholders to report any concerns or suspicions.
- Investigate any substantiated concerns or suspicions in a fair and confidential manner.
- Take action as appropriate based on the outcomes of investigations.

### **4 PREVENTION OF FRAUD, BRIBERY & CORRUPTION**

#### **Recruitment and induction**

4.1 The Council recognises that a key preventative measure in the fight against fraud, bribery and corruption is to take effective steps at the recruitment stage to verify the propriety and integrity of the previous records of potential employees of the organisation. The Council has a Recruitment and Selection Policy, Procedure and Guidance which should be adhered to in recruiting both permanent and temporary/contract staff. This guidance requires a number of



checks at the recruitment stage to establish and confirm the previous records of potential employees, including the take up of written references and Disclosure and Barring Service checks for certain identified posts.

- 4.2 The Council has developed a formal induction process for new employees. This is intended to assist them in understanding the Council, its decision-making arrangements and the requirements of the Officers' Code of Conduct.
- 4.3 As elected representatives of the local community, newly-elected Members are also required to complete an induction to assist them in understanding the Council, its decision-making arrangements and the requirements of the Members' Code of Conduct.

### **Training**

- 4.4 The Council recognises that training is a vital tool in ensuring that both officers and Members clearly understand their roles and responsibilities within the organisation and carry these out within the Council's framework of policies and procedures. Training is particularly important where employees are required to operate within financial systems or handle monies or personal/confidential information.
- 4.5 The Council will promote a general awareness of fraud, bribery and corruption to all employees and Members, with specific training provided to officers engaged in the prevention and detection of such activity to ensure that they have the necessary skills to carry out these functions.

### **Internal Control Arrangements**

- 4.6 The Council as a whole operates within a framework of policies and procedures intended to direct the activity of the Council and ensure transparency in decision making. The Constitution forms the main spine of these arrangements and includes the Council's financial procedure rules and contracts procedure rules.
- 4.7 Responsible officers are expected to ensure that effective internal control arrangements are incorporated into the design or development of systems and procedures. Such arrangements would include ensuring adequate segregation of duties, authorisation and physical security controls to protect the Council from error, misappropriation or loss.
- 4.8 Members and officers are required to declare any financial and

other interest in any outside bodies or organisations which could be considered or perceived as having an influence on their actions on behalf of the Council.

- 4.9 The Council has established a Standards Committee to deal with matters relating to the Members' Code of Conduct.

### **Organisational Culture and Conduct**

- 4.10 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud, bribery and corruption. The Council operates a zero-tolerance approach towards fraud, bribery and corruption activity.
- 4.11 The Council supports the Seven Principles of Public Life identified by the Nolan Committee and recognises that these are fundamental to developing an effective working environment which does not allow or tolerate fraud, bribery and corruption activity. Further information on the Seven Principles of Public Life can be found at **[Annex 1]** to this document.
- 4.12 The Council expects that Members and officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. In particular, Members and officers are expected to adhere to their relevant Code of Conduct and declare any interests they may have that could or could be perceived to influence them in any decision-making they may be involved in relating to Council business. Members and Officers are also required to declare any gifts or hospitality they are offered relating to their role or Council business, where the value is more than £25, whether these are accepted or declined.
- 4.13 Managers should strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. There is also a Whistleblowing Policy in place to enable staff to raise any concerns where staff feel unable to raise concerns with their manager.
- 4.14 The Council also expects that individuals and organisations, e.g. suppliers, contractors, partners and service providers that it comes into contact with will act with integrity in their dealings with the Council and without thought or actions involving fraud and corruption.

### **Internal Scrutiny Arrangements**

- 4.15 The Council has an internal audit function which has the responsibility to objectively examine, evaluate and report on the adequacy of the control environment by evaluating its effectiveness

in achieving the organisation's objectives. The work of internal audit will include review of the existence and effectiveness of the Council's internal control arrangements. Any review work undertaken by the internal audit function will give due consideration to the risk of fraud or corruption within the area subject to audit.

- 4.16 Assurance of the effective operation of internal control arrangements is requested from management annually as part of the Council's arrangements for preparing the Annual Governance Statement. Managers are required to specifically provide assurance on the effective operation of internal control arrangements and staff awareness of this Policy. Managers also have a responsibility to carry out regular risk reviews and to raise concerns if they identify any areas where there is a potential weakness in internal controls.
- 4.17 The Audit Committee also has a role in providing independent assurance to the Council on the adequacy of the Council's control environment. This role is discharged by the Committee through the receipt of regular reports on the work and findings of internal and external audit, and the Council's governance and risk arrangements.

#### **External Scrutiny Arrangements**

- 4.18 The Council is subjected to a high degree of external scrutiny of its affairs by a variety of bodies and people.
- 4.19 As part of its statutory duties, the External Auditor is required to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

#### **Working with Others**

- 4.20 The Council is committed to working with other organisations to prevent and detect fraud, bribery and corruption through undertaking specific initiatives and ensuring that arrangements are in place to encourage the exchange of information between the Council and other agencies. Though not intended to be exhaustive, the Council currently works with the DWP, Kent Police, the Cabinet Office (National Fraud Initiative) and a number of networking groups.

### **5 DETECTION OF FRAUD, BRIBERY & CORRUPTION**

- 5.1 The Council has put in place a range of internal control arrangements within its systems and processes to detect inappropriate or dishonest activity, including budget monitoring and reconciliations. These arrangements are designed to detect

fraud, corruption and bribery activity should this occur. The Council recognises, however, that the detection of such activity is often as a result of the alertness of Members, employees, the general public and other stakeholders.

- 5.2 Members, employees, the general public and other stakeholders are encouraged to come forward and report any concerns or suspicions they may have through one of the following:
- Line Manager or Service Manager
  - The Council's Internal Audit and Fraud Team (01732 876337)
  - The Council's Whistleblowing Policy
  - Chief Executive / Monitoring Officer / Director of Finance & Transformation
  - The Council's External Auditor, Grant Thornton LLP
- 5.3 The Council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance and Transformation of any financial irregularity or suspected financial irregularity.
- 5.4 The Council recognises that on occasions, employees, Members and organisations working with the Council may not want to express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. In such instances, persons are urged to report concerns or suspicions through the channels set out in the Council's Whistleblowing Policy.

## **6 INVESTIGATION**

- 6.1 Any Manager with information about suspected fraud, bribery or corruption activity must report this immediately to the Internal Audit and Fraud Team. Managers should liaise with the Internal Audit and Fraud Team and Personnel as appropriate to agree the approach to:
- recording and securing all evidence received and collected;
  - ensuring that evidence is sound and adequately supported;  
and
  - implementing Council disciplinary procedures where

appropriate.

- 6.2 The Council has established a corporate approach to co-ordinate the investigation of allegations of fraud and corruption to ensure the effective use of the skills and resources within the organisation. This approach is intended to utilise officers from Internal Audit and Fraud and Personnel based on the nature of the allegation and the investigatory skills required.
- 6.3 The Council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent or deter the reported activity from recurring.
- 6.4 The Council's disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a Council employee.
- 6.5 Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council's presumption is that the issue will be pursued. The matter may be referred to the Police. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.
- 6.6 When making decisions about prosecutions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions.
- 6.7 The Council will seek, where appropriate, to maximise the recovery of any loss to the Council.
- 6.8 The investigation process must not be misused. The Council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.
- 6.9 Elected Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.
- 6.10 The Internal Audit and Fraud Team is responsible for all investigations relating to Council Tax fraud including Single Person Discount, Council Tax Reduction Scheme and discounts and exemptions. These investigations will be undertaken in

accordance with the Council's Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy.

## **7 RESPONSES TO REPORTED CONCERNS AND SUSPICIONS**

- 7.1 Any person or organisation reporting concerns or suspicions of fraud or corruption activity may request to be kept informed of the progress of any investigation or its outcome. The Council reserves the right to not fulfil this request where doing so may be to the detriment of the effectiveness and confidentiality of the investigation process.
- 7.2 Where people or organisations have raised a concern or suspicion about fraud or corruption activity but are not satisfied with the response they received, they may pursue the matter further by referring the issue through one of the following channels:
- the Council's complaints procedure
  - An Elected Member
  - The External Auditor Grant Thornton LLP
  - Public Concern at Work
  - A relevant professional or regulatory body
  - A solicitor or the Police

## **8 ACTION TO DETER FRAUD, BRIBERY & CORRUPTION**

- 8.1 All anti-fraud, bribery and corruption activities undertaken by the Council, including the update of this Policy will be publicised in order to make employees, Members, the general public and stakeholders aware of the Council's commitment to taking action on such activity, when it occurs.
- 8.2 The Council will endeavour to act robustly and decisively when fraud, bribery or corruption is suspected and proven. This will be demonstrated through disciplinary action or prosecution.
- 8.3 The Council will take action to help ensure the maximum recoveries for the Council.
- 8.4 The Council's Media & Communications Team is responsible for optimising the opportunities available to publicise to the public any anti-fraud, bribery and corruption activity being undertaken within the Council. Once notified of such cases, the Media & Communications Team is also responsible for endeavouring to

ensure that the results of any investigations undertaken, including prosecutions, are reported in the local press.

## **9 MEASURING THE EFFECTIVENESS OF THIS POLICY**

9.1 The Council has recognised the importance of measuring the effectiveness of its anti-fraud, bribery and corruption arrangements and that this cannot consist of one single measure. The Council will demonstrate the effectiveness of this Policy through a number of measures focusing on outcomes and will include assessments of:

- awareness levels
- number of suspicions and concerns reported per annum
- number of investigations undertaken
- outcomes of investigations undertaken
- level of losses identified
- sanctions applied
- financial losses recovered or, where appropriate, financial savings generated.

9.2 This information will be reported to the Audit Committee on an annual basis.

## **10 REVIEW AND APPROVAL OF THIS POLICY**

10.1 The Anti-Fraud and Corruption Policy will be reviewed and endorsed at least annually by the Audit Committee.

## **The Seven Principles of Public Life**

### **Selflessness**

Holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

### **Integrity**

Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

### **Objectivity**

In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

### **Accountability**

Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

### **Openness**

Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

### **Honesty**

Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

### **Leadership**

Holders of public office should promote and support these principles by leadership and example.



# **HOUSING BENEFIT ANTI-FRAUD POLICY**



**January 2016**

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## **Tonbridge and Malling Borough Council Housing Benefit Anti-Fraud Policy**

### **1. INTRODUCTION**

- 1.1 The Council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. It is important to detect and prevent fraud and error in the first instance and as such the Council seeks to check and verify all original documents and personal circumstances before making payments or amending existing payments of benefit.
- 1.2 The Council has an Anti-Fraud and Corruption Policy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.
- 1.3 This Housing Benefit Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Policy specifically in relation to Housing Benefit Administration and is designed to:
- stop fraudulent claims from entering our systems
  - find any fraudulent claims already in the system
  - stop payments from going to people who are not entitled to it
  - recover fraudulent overpayments of benefit
  - deter people from trying to commit fraud
- 1.4 The Housing Benefit Anti-Fraud Policy will be reviewed at least annually by the Audit and Assurance Manager for approval by the Audit Committee.

### **2. DEFINITION OF BENEFIT FRAUD**

- 2.1 Benefit fraud is where a person, dishonestly, or not,
- a) Falsifies a statement or a document; or
  - b) Is involved in a failure to notify a relevant change of circumstance; or
  - c) Omits relevant information

for the purpose of obtaining or increasing entitlement to housing benefit for themselves or another.

### **3. CULTURE**

- 3.1 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud and corruption and as such has established a dedicated Fraud Team.
- 3.2 The Council's staff and Members, at all levels, are an important element in its stance on fraud and corruption and should lead by example. They are encouraged to raise any concerns and can do this in the knowledge that these will be treated in confidence and properly investigated.
- 3.3 Instances of suspected/alleged Housing Benefit fraud must be referred to the DWP. Contact details can be found at paragraph 5.3.

### **4. PREVENTION**

#### **Staff**

- 4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential employees are comprehensively checked. Benefits staff should also sign a declaration covering any interests that may conflict with their work. For example, receiving housing benefit, or acting as a landlord or agent.
- 4.2 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the Council, e.g. processing a Housing Benefit application form for a relative or friend.
- 4.3 Benefits staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive refresher training.

#### **Systems**

- 4.4 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.
- 4.5 All Benefits recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.
- 4.6 All staff with access to the confidential details of claimants will be responsible for ensuring the control of physical access to the data and

will be responsible for compliance with the Data Protection Act and the Freedom of Information Act. This responsibility requires managers to ensure that the physical access to equipment is restricted, as far as practical, to authorised users only. All individuals must protect their passwords and not keep them written down or 'lend them'.

- 4.7 All manual Housing Benefit records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.
- 4.8 All valuables, including documentation, must be recorded and tracked through the housing benefit system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.

## **5. DETECTION**

- 5.1 Surveys have identified that Housing Benefit Fraud is one of the largest area of detected fraud in local government.
- 5.2 Whilst encouraging genuine claimants to apply for benefit the Council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:
  - participation in the National Fraud Initiative data-matching exercise
  - publicity of anti-fraud initiatives, and press releases.
- 5.3 When a potential housing benefit fraud is identified during routine administration the member of staff within the Benefits Section should refer suspected cases of fraud to the DWP Single Fraud Investigation Service in accordance with agreed procedures. In all other instances the individual should use the existing DWP channels:
  - Online – [www.gov.uk/benefit-fraud](http://www.gov.uk/benefit-fraud)
  - By Telephone – National Benefit Fraud Hotline 0800 854 440
  - By Post – NBFH, PO Box 224, Preston, PR1 1GP
- 5.4 The Council will take action, including legal recovery, in order to recover all overpayments of housing & council tax benefit that result from fraudulent activity or claimant failure to notify a change of circumstances. The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by an employee.

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# **COUNCIL TAX REDUCTION, DISCOUNTS & EXEMPTIONS ANTI-FRAUD POLICY**



**January 2016**

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**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy**

**1. INTRODUCTION**

- 1.1 Tonbridge and Malling Borough Council is committed to ensuring that the correct levels of council tax liability are collected from its residents and considers that council tax reduction and discounts and exemptions should only be applied to households that meet the necessary criteria. It is important to detect and prevent fraud and error in the first instance and as such the Council seeks to check and verify all original documents and personal circumstances before awarding any reductions, discounts or exemptions, or amending existing reductions, discounts or exemptions.
- 1.2 The Council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. The Council has issued an Anti-Fraud and Corruption Policy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.
- 1.3 This Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Policy specifically in relation to Council Tax Administration and is designed to:
- stop fraudulent applications for reductions, discounts or exemptions from entering our systems
  - find any fraudulent reductions, discounts or exemptions already in the system
  - punish those people who commit fraud
  - recover council tax owed as the result of fraudulently obtained reductions, discounts or exemptions
  - deter people from trying to commit fraud
- 1.4 The Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy and the associated Sanction & Prosecution Policy will be reviewed at least annually by the Audit and Assurance Manager for approval by the Audit Committee.

## 2. DEFINITION OF COUNCIL TAX FRAUD

2.1 Council Tax fraud is where a person, dishonestly, or not,

- a) Falsifies a statement or a document; or
- b) Is involved in a failure to notify a relevant change of circumstance; or
- c) Omits relevant information

for the purpose of obtaining a reduction in council tax liability for themselves or another.

## 3. CULTURE

3.1 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud and corruption and as such has established a dedicated Fraud Team.

3.2 The Council's staff and Members, at all levels, are an important element in its stance on fraud and corruption and should lead by example. They are encouraged to raise any concerns and can do this in the knowledge that these will be treated in confidence and properly investigated.

3.3 Instances of suspected/alleged Council Tax fraud may be referred for investigation to the Internal Audit and Fraud Team who can be contacted on extension 6337/6101 or through the e-mail system. All staff conducting either investigations and or interviews should be aware of the Council's procedures for dealing with unacceptable and aggressive behaviour.

## 4. PREVENTION

### Staff

4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential recruits are comprehensively checked. Revenues and Benefits staff should also sign an annual declaration covering any interests that may conflict with their work. For example, council tax reduction entitlement or acting as a landlord or agent.

4.2 All individuals within the Internal Audit and Fraud Team are required to act with integrity and follow the **Code of Conduct for Investigation Staff (see Appendix A)**.

4.3 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the

Council, e.g. processing a Council Tax Reduction application form for a relative or friend.

- 4.4 Appropriate staff within the Council will receive fraud awareness training. All Fraud Officers will undertake training in order to ensure that they carry out their duties in accordance with recognised standards for Fraud Investigation.

### **Systems**

- 4.5 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.
- 4.6 All Council Tax recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.
- 4.7 All staff with access to the confidential details of claimants will be responsible for ensuring the control of physical access to the data and will be responsible for compliance with the Data Protection Act and the Freedom of Information Act. This responsibility requires managers to ensure that the physical access to equipment is restricted, as far as practical, to authorised users only. All individuals must protect their passwords and not keep them written down or 'lend them'.
- 4.8 All manual Council Tax records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.
- 4.9 All valuables, including documentation, must be recorded and tracked through the council tax system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.
- 4.10 All telephone calls received in relation to Council Tax Fraud will be recorded manually and a note of the content of the conversation will be kept on file.

## **5. DETECTION AND INVESTIGATION**

- 5.1 Surveys by the Audit Commission identified that Council Tax Fraud causes significant loss to local government.
- 5.2 Whilst encouraging genuine people to apply for reductions, discounts and exemptions, the Council has adopted a number of initiatives to

detect and prevent fraudulent applications, such as:

- operation of a fraud 'hotline' 01732 876337
- participation in the National Fraud Initiative data-matching exercise
- carrying out joint fraud investigations with other bodies
- publicity of anti-fraud initiatives, the Fraud Hotline number and press releases.

- 5.3 All referrals passed to the Fraud Team will be sifted and vetted for strength of evidence. All cases where the evidence is considered sufficient to investigate will be logged and a case file opened.
- 5.4 The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by an employee.
- 5.5 Members of staff within the Council Tax Section should refer suspected cases of fraud to the Internal Audit and Fraud Team. The Team will give feedback to staff regarding the quality of the fraud referral and the outcome of any resulting investigation as appropriate.
- 5.6 All claims where there is sufficient proof for the Council to believe that a reduction, discount or exemption has been claimed fraudulently will be dealt with under the associated Sanction and Prosecution Policy. The sanctions open to the Council include a Caution, an Administration Penalty (in respect of council tax reduction) or Prosecution.
- 5.7 The Council will take action, including legal recovery, in order to recover all council tax liability that results from fraudulent activity or a person's failure to notify a change of circumstances, regardless of whether sanction action takes place, and may consider imposing a civil penalty of £70 for incorrect statements or negligently failing to report changes in circumstances.

**Tonbridge and Malling Borough Council**  
**Council Tax Reduction, Discounts & Exemptions**  
**Sanction and Prosecution Policy**

**I. STATEMENT OF INTENT**

- Tonbridge and Malling Borough Council has a duty to ensure that all applications for Council Tax reduction, discounts and exemptions are correctly awarded and a responsibility to prevent and detect fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing fraud in order to reduce their council tax liability.
- Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where liabilities vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.
- The recommendation on whether a case is suitable for sanction action lies with the Audit and Assurance Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the Audit and Assurance Manager in accordance with the sanction policy to determine what course of action, if any, is appropriate. This review will take into account:
  - ❑ The evidential test criteria
  - ❑ The Public interest test criteria
  - ❑ Value and length of the offence
  - ❑ Local prevalence
  - ❑ Social and health factors
  - ❑ Any other mitigating factors
- Prosecution recommendations will be reviewed by Legal Services and the Chief Financial Services Officer for approval. Cases deemed suitable for prosecution may be dealt with in-house by the Authority's legal team. These cases are generally prosecuted under the Fraud Act 2006 or the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.
- Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

## **II. EVIDENTIAL CRITERIA**

- Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.
- In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?
- In making this decision, the following factors will be considered:
  - ❑ How clear the evidence is
  - ❑ If there has been any failure in the investigation
  - ❑ If there has been any failure in administrative process

## **III. PUBLIC INTEREST CRITERIA**

- If the evidential criteria are met then the Council will consider whether or not sanction action would be in the public interest. In making this decision, the following factors will be considered first:
  - ❑ Medical conditions
  - ❑ Other social factors
  - ❑ Financial implications compared with losses
- If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors will be considered in order to decide the appropriate sanction.

## **IV. NO SANCTION OR PROSECUTION**

- Tonbridge and Malling Borough Council may consider closing the case without any sanction or prosecution action if:
  - ❑ To our knowledge the person has never previously offended
  - ❑ The offence is minor
  - ❑ The period over which the fraud has been committed is very short
  - ❑ The value involved is very low
  - ❑ The case does not satisfy the Evidential and Public Interest Criteria
- In cases where no further action is appropriate and an Interview Under Caution has taken place a letter will be issued stating that no further action will take place, however a strong reminder advising of the responsibility to notify changes and provide correct information will be included in the letter.

## V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

- Even if it is determined Tonbridge & Malling will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for making an incorrect statement or failing to notify a change of circumstances.
- The Council may consider imposing a penalty of £70 on a person where:
  - ❑ The Person makes an incorrect statement or representation, or negligently gives incorrect information or evidence in or in connection with an application or in connection with the award of a reduction under the council tax reduction scheme
  - ❑ Fails to take reasonable steps to correct the error
  - ❑ The error results in an award of a council tax reduction which is greater than the amount to which the person was entitled
  - ❑ Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances
  - ❑ The failure results in an award of a council tax reduction which is greater than the amount to which the person was entitled
  - ❑ The person has not been charged with an offence or cautioned, or been given an administration penalty

## VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

- Where the Council has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.
- These alternative sanctions take the form of a caution or, in the case of Council Tax Reduction, an administrative penalty.
- **A Caution:**
  - ❑ Acts as a final written warning for the offence committed
  - ❑ Is for council tax administration purposes only
  - ❑ Is not a criminal record and, therefore, does not affect a person's employment prospects
  - ❑ Remains on record for a period of 5 years
  - ❑ Would be cited at proceedings should any subsequent offences be committed within the 5 year period
- The Council may consider issuing a Caution if:
  - ❑ To our knowledge the person has never previously offended

- ❑ The person has committed fraud before but the offence was minor and the current offence is also minor
- ❑ There was no planning involved in the process
- ❑ There was no other person involved in the fraud
- ❑ The offence is minor
- ❑ The value of the offence is relatively low
- ❑ The person has fully admitted the offence during an IUC
- ❑ The persons subsequent attitude, e.g. whether they express genuine regret for what they have done
- ❑ Criminal proceedings are not the first option

➤ **An Administrative Penalty:**

- ❑ Is a financial penalty calculated as a percentage of the fraudulently obtained council tax reduction, which is set at:
  - 50% of the excess reduction, with a minimum of £100 and a maximum of £1,000
- ❑ Is for council tax administration purposes only
- ❑ Is not a criminal record and, therefore, does not affect a person's employment prospects
- ❑ Remains on record for a period of 5 years
- ❑ Would be cited at proceedings should any subsequent offences be committed within the 5 year period

➤ The Council may consider issuing an Administrative Penalty if:

- ❑ To our knowledge the person has never previously offended
- ❑ The person has committed fraud before but the offence was minor and the current offence is also minor
- ❑ There was no planning involved in the process
- ❑ There was no other person involved in the fraud
- ❑ A Caution is not appropriate as there has been no admission to the offence
- ❑ The offence is minor
- ❑ Criminal proceedings are not the first option

➤ If a person refuses to accept a caution or administrative penalty, the case will be referred for prosecution.

➤ Even if the above criteria for Cautions and Penalties was satisfied Tonbridge and Malling Borough Council may decide that a Caution or Administrative Penalty is not appropriate if the person:

- ❑ Has been prosecuted for a fraud offence in the last 5 years
- ❑ Has been cautioned two or more times in the past five years

➤ This is because this would indicate that:



- ❑ Previous sanctions have not deterred them from re-offending
  - ❑ Their lack of contrition for the offences committed
  - ❑ Their disregard for the legislation
  - ❑ A deliberate and repeated intent to commit fraud
  - ❑ Their apparent belief that these offences are not serious
- Instead Tonbridge and Malling Borough Council may consider referring the case for prosecution.

## **VII. PROSECUTION**

- The final decision on whether to refer a case for prosecution lies with the Audit and Assurance Manager. This decision will then be reviewed by Legal Services and the Chief Financial Services Officer for approval.
- Once a decision to prosecute has been made, the case will be presented to the Council's Legal Team, who will provide an opinion on the evidential and public interest test.
- If the evidential and public interest tests have been satisfied, the case will be authorised by the Legal Team and passed for prosecution. If the Legal Team consider the evidential and public interest test has not been met the case will be referred back to the Fraud Team with a recommendation.
- In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration:
  - ❑ Whether the application for reduction, a discount or exemption was false from inception
  - ❑ The change in circumstances was intentionally withheld
  - ❑ Whether there was planning in the process
  - ❑ Whether the suspect was a ring leader or an organiser of the offence
  - ❑ Any previous incidence of fraud
  - ❑ Whether there has been any abuse of position or privilege
  - ❑ The amount of the excess reduction in liability
  - ❑ The duration of the alleged offence
  - ❑ Whether there are grounds for believing that the offence was likely to be continued or repeated, based on the person's previous history
  - ❑ Whether the offence is widespread in the area where it was committed and so prosecution may act as a deterrent
  - ❑ Whether the person has refused to accept a Caution or Administrative Penalty

## **VIII. COLLECTION OF COUNCIL TAX**

- Regardless of whether or not any Sanction action is taken, Tonbridge and Malling Borough Council will attempt to collect all Council Tax owed as the result of false applications for reductions, discounts and exemptions. This action is taken by the Revenues Team who will pursue all available methods of recuperating the debt including taking civil action when necessary.

## **CODE OF CONDUCT FOR STAFF INVESTIGATING FRAUD**

### **Code of Conduct & Good Practice for Staff Investigating Fraud**

This Code applies to all officers engaged in carrying out duties involving the investigation of Fraud.

The Code should be read in conjunction with the legal requirements of the post and current staff rules.

The Audit and Assurance Manager will deal with a breach of The Code of Conduct and Good Practice.

Inefficiency is a breach of this Code, and falls short of the expected standard and may require remedial training.

### **General Conduct**

Officers of Tonbridge & Malling Borough Council will not:

- Exceed their actual authority or hold them out as having any authority not provided by legislation.
- Act in any way, benefit or gain, which exceeds the limits of their powers.
- Misuse their official position for any benefit or gain for themselves or another.

### **Legislation**

- Officers must pursue all reasonable lines of enquiry even if it points away from a suspect's guilt.
- Ensure that all material that is gathered during the investigation is recorded and retained and that all relevant material is revealed to the prosecutor in accordance with The Criminal Procedure and Investigations Act and the Codes of Practice.
- Ensure that the Codes of Practice are observed in accordance with The Police and Criminal Evidence Act.
- Ensure that applicable provisions of The Regulation of Investigatory Powers Act and the Codes of Practice and guidance in relation to directed surveillance are adhered to.
- Observe all other applicable legislation and internal and external guidance.

### **Evidence (witness and suspects)**

Officers to whom the Code applies must not under any circumstances:

- Conceal or fabricate evidence or knowingly allow any evidence to be concealed or fabricated.
- Discriminate or exercise any bias on the grounds of race, sex, marital status, sexual orientation, or disability.
- Accept or offer any inducement, bribe or other advantage from or to any witness or suspect.
- Use any information gathered in the course of their duties for personal gain or coercion or otherwise misuse such information.
- Do or fail to do anything that may result in a miscarriage of justice.

### **Disclosure of Interests**

- Officers must declare any circumstances or interests which may affect their ability to conduct an investigation objectively.
- Any relationship to or with a suspect or witness or informant.
- Any personal interest in the outcome of an investigation or other civil or criminal Proceedings.
- Their dependency on alcohol or drugs other than those prescribed.
- Officers should disclose to their line manager if they are or have been subject to any summons, charge, or arrest.

### **Information**

- Officers must treat all information gathered for evidential purposes during an investigation as confidential and, must not deliberately or negligently disclose such information to an unauthorised third party, or reveal the source of the information to an authorised third party.

### **Personal Injury and Damage to Property**

- Officers, must exercise all reasonable care to prevent injury to the person, loss or damage to the public and private property, and must not forcibly enter public or private property except to save life or prevent serious injury or on the invitation of the occupier or other responsible person, deliberately or negligently destroy or damage any property, seize or retain any property without lawful authority, or use threatening physical violence towards a colleague or member of the public.

# WHISTLEBLOWING POLICY



January 2016

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# TONBRIDGE & MALLING BOROUGH COUNCIL WHISTLEBLOWING POLICY

## A confidential reporting policy for all Members, employees and contractors

### 1. Introduction

- 1.1 Tonbridge & Malling Borough Council operates within legal requirements and regulations and expects its employees to co-operate in this by adhering to all laws, regulations, policies and procedures. The Council recognises that employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 1.2 The Public Interest Disclosure Act 1998 (the 1998 Act) contains measures which help to promote greater openness between employers and employees in the workplace and supports a structure for whistleblowing. The 1998 Act:
- a) *is designed to give statutory protection to employees who “blow the whistle” on their employer’s malpractice; and*
  - b) *although not requiring the Council to set up an appropriate mechanism for dealing with whistleblowing, makes clear the important role that such a mechanism can play in helping the Council comply with the law.*
- 1.3 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect and support employees, and others that we deal with, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. This policy is intended to encourage and enable individuals to raise concerns within the Council, without fear of reprisals, rather than overlooking a problem or “blowing the whistle” outside. The policy does, however, recognise that individuals must be able to take matters further if they are dissatisfied with the Council’s response.

### 2. Definition of Whistleblowing

- 2.1 *‘Whistleblowing’ means the disclosure of malpractice or wrongdoing within an organisation.*

### 3. Aims and Scope of this Policy

- 3.1 The Whistleblowing Policy aims to:

- encourage you to feel confident about raising concerns and to question and act on those concerns;

- provide a way for you to raise concerns and receive appropriate feedback on any action taken;
- confirm that all concerns raised will be examined and the Council will assess what action should be taken;
- reassure you that you will be protected from possible reprisals or victimisation if you have made a disclosure in good faith; and
- provide ways for you to take the matter further if you are dissatisfied with the Council's response.

3.2 The *Whistleblowing Policy* is intended to cover concerns that fall outside the scope of the Council's Grievance Procedure which enables employees to lodge a grievance relating to their employment. This Policy is also intended to cover concerns that fall outside the scope of the Council's corporate complaints procedures and other statutory reporting procedures. These may include:

- any unlawful act, whether criminal (e.g. theft) or a breach of the civil law (e.g. slander or libel)
- health and safety risks, including risks to the public as well as to other employees (e.g. faulty electrical equipment)
- damage to the environment (e.g. pollution)
- the unauthorised use of public funds (e.g. expenditure for improper use)
- possible fraud and corruption
- inappropriate or improper conduct (e.g. abuse of power, bullying / harassment)
- serious failure to comply with appropriate professional standards (e.g. National Code of Local Government Conduct)
- breach of Council or statutory codes of practice or the Council's standing orders (e.g. Officers' Code of Conduct)
- discrimination on the grounds of race, colour, creed, ethnic or national origin, disability, age, sex, sexual orientation, marital status or class
- abuse of children and vulnerable adults (e.g. through physical, sexual, psychological or financial abuse, exploitation or neglect)
- other unethical conduct.



#### 4. Who does this Policy Cover?

4.1 This policy applies to disclosures made in relation to or by:

- any employee of the Council, either under contract of employment or apprenticeship
- any Member of the Council
- any contractors, their agent, subcontractors and suppliers working with or on behalf of the Council
- consultants and agency staff working with or for the Council
- any organisation working in partnership with the Council.

#### 5. Supporting the Individual Raising a Concern

5.1 **Harassment or Victimisation:** The Council is committed to good practice and high standards. The Council also recognises that the decision to report a concern can be a difficult one to make. It will not tolerate harassment or victimisation of whistleblowers and will take action to protect individuals who raise concerns in good faith.

Any investigation into allegations of potential malpractice will not influence or be influenced by any disciplinary or redundancy procedures that may already affect the individual. However, this does not mean that if the individual is already the subject of disciplinary or redundancy procedures, that those procedures will be halted as a result of raising a concern under this policy.

5.2 **Confidentiality:** Individuals are encouraged to put their name to any allegation; concerns expressed anonymously are much less powerful but will be considered at the discretion of the Council, taking into account:

- the seriousness of the issues raised;
- the credibility of the concern; and
- the likelihood of confirming the allegation from attributable sources.

All concerns will be treated in confidence and the Council will do its best to protect the individual's identity when they do not want their name to be disclosed. It must be appreciated that the investigation process may reveal the source of the information and a statement by the individual raising the concern may be required as part of the evidence. If the situation arises where the Council is not able to resolve the concern without revealing the individual's identity, this will be discussed with the individual in an attempt to identify how the matter can be progressed.

5.3 **Untrue Allegations:** Any individual who makes an allegation in good faith, but which is not subsequently confirmed by the investigation, will have no action

taken against them. If, however, an individual makes malicious or vexatious allegations or an allegation for personal gain, disciplinary action may be taken against them.

## **6. How to Raise a Concern**

6.1 When an individual wishes to raise a concern, they will need to identify the issues carefully. An individual must be clear about the standards against which they are judging practice. They should consider the following:

- Is it illegal?
- Does it contravene professional codes of practice?
- Is it against government guidelines?
- Is it against the Council's guidelines?
- Is it about one individual's behaviour or is it about general working practices?
- Does it contradict what the employee has been taught?
- Has the employee witnessed the incident?
- Did anyone else witness the incident at the same time?

6.2 Members should raise a concern in the first instance with the Chief Executive, Monitoring Officer or S151 Officer. Employees should raise concerns in the first instance with their immediate Line Manager or Service Manager, if possible. Similarly, non-employees (e.g. agency workers or contractors) should raise a concern in the first instance with their contact within the Council, usually the person to whom they directly report.

6.3 In some cases, the nature, seriousness or sensitivity of the concern or the individuals involved in the activities causing concern means that this may not always be appropriate. If a person feels they cannot raise their concern with their immediate management/contact, they are able to go directly to the Audit and Assurance Manager.

6.4 Individuals may also contact the Internal Audit and Fraud Team for advice/guidance on how to pursue matters of concern or if, having raised the concern with the immediate manager/contact, they feel there has not been an appropriate response.

6.5 In the event of a concern being of an extreme and potentially serious nature, individuals may raise the matter directly with the Chief Executive.

6.6 Once an employee is certain that the concern should be raised, the following action should be considered:

- Concerns may be raised verbally or in writing. Employees who wish to make a written report should give the background and history of the concern and the reason why they are particularly concerned about the situation. The earlier concerns are expressed the easier it is to take action. A form is available at Appendix 1 of this policy for those wishing to raise a concern in writing.
- If the employee wishes, they may ask for a private meeting with the person to whom they wish to make the complaint. An employee may take a Trade Union representative or work colleague with them as a witness or for support. The employee should take to the meeting, if possible, dated and signed written supporting statements from anyone who can also confirm the allegations.
- When making the complaint verbally, the employee should write down any relevant information and date it. Keep copies of all correspondence and relevant information.
- The employee should ask the person to whom they are making the complaint what the next steps will be and if anything more is expected of them.

6.7 Although the individual raising the concern is not expected to prove the truth of an allegation, they will need to demonstrate to the person contacted that there are sufficient grounds for the concern.

## **7. How the Council will Respond**

7.1 Once a concern is raised the appropriate Council manager is responsible for making initial enquiries, taking advice from Personnel and or Internal Audit and Fraud Team to help decide if an investigation is appropriate and if so, what form it should take. In determining the action to be taken, the Council will take into consideration public interest and whether the concerns or allegations fall within the scope of and may be dealt with under other specific procedures such as the Council's Grievance Procedure.

7.2 Concerns raised may:

- be resolved by agreed action without the need for investigation;
- be investigated by management;
- be investigated by the Internal Audit and Fraud Team and or Personnel;
- be referred to the Police;

- be referred to the External Auditor.
- 7.3 As soon as possible, and in any case within 10 working days of a concern being raised, the person handling the matter will write to the individual raising the concern acknowledging that it has been raised and indicating how, as far as possible, it will be dealt with. The individual will be kept informed of progress and will receive a full and final response, subject to any legal constraints.
- 7.4 The amount of contact between the persons considering the issues and the individual(s) raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary to pursue investigation activity, the Council will seek further information from the individual. Where any meeting is arranged, the individual may be accompanied by a union or professional association representative or a friend or colleague.
- 7.5 The Council will take steps to minimise any difficulties which individuals may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will arrange for you to receive advice and support in doing this.

## **8. How the Matter can be Taken Further**

- 8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if they are not satisfied, or feel it is right to take the matter outside the Council, the following are possible contact points:
- The Council's External Auditor, currently Grant Thornton UK LLP
  - Public Concern at Work (Tel: 020 7404 6609, [www.pcaw.co.uk](http://www.pcaw.co.uk)) who are a registered charity whose services are free and confidential
  - The local Citizens Advice Bureau
  - Relevant professional bodies, Trade Unions or regulatory organisations
  - Unison's whistleblower's hotline 0800 597 9750
  - The Police
  - A solicitor
  - The Local Government Ombudsman.

8.2 If individuals do feel it is right to take the matter outside the Council, they will need to ensure that confidential information is not disclosed. Advice and guidance on this issue may be sought from the Internal Audit and Fraud Team or the Council's Monitoring Officer.

## **9. Review and Approval of this Policy**

9.1 The Whistleblowing Policy will be reviewed at least annually by the Audit Committee for recommendation to the General Purposes Committee for approval.

**WHISTLEBLOWING POLICY - REPORT OF A CONCERN**

Give a description of the concern including any serious risk to persons or property.

Give details of the information that you have relating to the concern, e.g. what evidence do you have that gives rise to your concern.

Have you previously raised this concern? If so, with whom and what action was taken?

Please give details about yourself - All concerns will be treated in confidence and every effort will be made not to reveal your identity if you so wish. At the appropriate time, however, you may need to come forward as a witness.

Name.....

Contact details.....

I understand that this concern is being raised under the Council's Whistleblowing Policy and have read and understood the Policy.

Signed..... Date.....

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Delegated

### 1 ACCOUNTING POLICIES FOR 2015/16 FINANCIAL STATEMENTS

This report presents the Accounting Policies proposed for the 2015/16 Financial Statements.

#### 1.1 Introduction

1.1.1 The Accounting Policies to be used in the preparation of the Financial Statements are attached at **[Annex 1]** for Members' consideration and approval.

1.1.2 The only change to the Policies is as a result of a change to the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 in respect of the valuation of Investment Properties.

1.1.3 For Investment Properties the valuation was previously carried out on an existing use value, they will now be carried on the balance sheet at fair value, meaning that the Council should consider if there would be a greater gain from an alternative use of such an asset. The new accounting policy can be found below.

*Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.*

*Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value.*

*Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.*

*Rentals income received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.*

*Investment properties are not subject to depreciation.*

With this in mind we have asked our valuers to review our investment properties and consider both alternative uses and values.

1.1.4 No further changes have been made to the Accounting Policies.

## **1.2 Legal Implications**

1.2.1 Under the Code the Council is required to prepare and follow Accounting Policies for its Financial Statements.

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

1.3.1 None.

## **1.4 Risk Assessment**

Failure to follow Accounting Policies could result in misrepresentation of the Financial Statements and ultimately qualification of the Accounts.

## **1.5 Equality Impact Assessment**

1.5.1 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.

## **1.6 Recommendations**

1.6.1 The Committee is asked to **endorse** the Accounting Policies to be used in the preparation of the 2015/16 Financial Statements as set out at **[Annex 1]**.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton

Director of Finance and Transformation



## 1. ACCOUNTING POLICIES

### a) General

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16*. The Code is based on levels of approved accounting standards:

- International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB).
- International Accounting Standards (IAS) approved by the International Accounting Standards Committee (IASC).
- Interpretations originating from the International Financial Reporting Interpretations Committee (IFRIC).
- Interpretations originating from the Standing Interpretations Committee (SIC).
- International Public Sector Accounting Standards (IPSAS) approved by the International Public Sector Accounting Standards Board (IPSASB).
- Financial Reporting Standards (FRS) approved by the Accounting Standards Board (ASB).
- Statements of Standard Accounting Practice (SSAP) approved by the Accounting Standards Committee (ASC).
- Urgent Issues Task Force's (UITF) Abstracts.

The accounting convention adopted for the preparation of these Accounts is an historical cost basis modified for the revaluation of certain categories of assets.

### b) Qualitative Characteristics of Financial Information

- Relevance - in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the objective of the principal statements is to provide information on the Council's financial performance that is useful for assessing the stewardship of public funds and for making economic decisions.
- Reliability - the financial information can be depended upon to represent accurately the substance of the transactions that have taken place. The Accounts are unbiased, free from material error, have been prepared in a prudent manner and have included all issues that would assist users to make adequate decisions on the Council's financial standing.
- Comparability - the Accounts contain comparative information about the Council so that performance may be compared with a prior period.
- Understandability - although a reasonable knowledge of accounting and local government is required, all efforts have been made in the preparation of the financial statements to ensure that they are as easy to understand as possible.
- Materiality - an item of information is material to the Accounts if its misstatement or omission might reasonably be expected to influence assessments of the Council's stewardship and economic decisions.

### c) Accounting Concepts

- Going concern – it is assumed that the Council will continue in operational existence for the foreseeable future and accordingly the Accounts have been prepared on a going concern basis.

- Accruals - the financial statements, other than the Cash Flow Statement, have been prepared on an accruals basis. The accruals basis requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Primacy of legislation - local authorities derive their power from statute and their financial and accounting framework is closely controlled by legislation. Where there is conflict between a legal requirement and an accounting standard, the legal requirement will take precedence.

**d) Accruals of Income and Expenditure**

Income and expenditure is accrued to ensure it is accounted for in the period to which it relates. Exceptions to this principle, for example, are electricity, gas and similar periodical payments which are charged at the date of meter reading rather than being apportioned between financial years; and penalty charge notices and licensing fees which are accounted for on the day of receipt. This policy is consistently applied each year and its effect on the Accounts is not considered to be material.

**e) Assets Held for Sale**

Non-current assets that have been identified for sale by the Council will be reclassified as current assets when the asset is being actively marketed and has a high probability of sale within twelve months of the Balance Sheet date.

**f) Cash and Cash Equivalents**

Internally managed investments of three months or less from the date of acquisition will be recognised as cash equivalents (short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value). Externally Managed funds normally comprise of investments that cannot be easily realised and are excluded from this heading.

**g) Council Tax and National Non-Domestic (Business) Rates**

The Council is a billing authority which is required to bill local residents and businesses for Council Tax and National Non-Domestic Rates respectively. The Council acts as an agent for Kent County Council, Police and Crime Commissioner for Kent and Kent Fire and Rescue in respect of Council Tax and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Council Tax and the major precepting authorities as a net debtor or creditor.

Similarly, the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of Business Rates and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Business Rates and the other bodies covered by the Business Rates Retention scheme as a net debtor or creditor.

In addition, the Comprehensive Income and Expenditure Statement includes our share of the Collection Fund surplus/deficit for the year in respect of Council Tax and Business Rates, which is subsequently reversed within the Movement in Reserves Statement to the Collection Fund Adjustment Account in the Balance Sheet.

## **h) Contingent Assets and Liabilities**

Contingent assets should not be recognised in the accounting statements, they should be disclosed by way of notes if the inflow of a receipt or economic benefit is probable. Such disclosures should indicate the nature of the contingent asset and an estimate of its financial effect.

Contingent liabilities should not be recognised in the accounting statements, they should be disclosed by way of notes if there is a possible obligation which may require a payment or a transfer of economic benefits. For each class of contingent liability the Council should disclose the nature of the contingency, a brief description, an estimate of its financial effect, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

## **i) Debt Write-Off**

The Director of Finance and Transformation approves and or recommends the write-off of debt where efforts to collect the sums have failed and any further action would be uneconomic or impractical or in the opinion of the Director of Finance and Transformation there is a valid reason for not pursuing the debt. In order to mitigate the financial impact of write-offs the Director of Finance and Transformation makes an impairment allowance taking into account the size and age of the debt outstanding and the likelihood of recovery.

## **j) Employee Benefits**

Under the Code employee benefits are accounted for when the Council is committed to pay an employee. Employee benefits are split into three categories.

### **Benefits Payable during Employment**

This covers:

- Short-term employee benefits, such as salaries and wages, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees.
- Benefits earned by current employees, but payable twelve months or more after the end of the reporting period (e.g. long-service awards).

### **Termination Benefits**

This covers costs that are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

In the event of notice of termination being served on an employee the known liability is recognised at the earlier of when the authority can no longer withdraw the offer of these benefits or when the authority recognises the costs of a restructure will involve the payment of termination benefits, any enhanced retirement benefits paid by the employer are accounted for on a cash basis.

### **Post-Employment Benefits**

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent

County Council – this is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Under IAS 19, the employer recognises as an asset or liability the surplus / deficit in a pension scheme. The surplus / deficit in a pension scheme is the excess / shortfall of the value of assets when compared to the present value of the scheme liabilities. A prerequisite of the introduction of IAS 19 was that it did not impact on taxation requirements. Where the contributions paid to the pension scheme do not match the change in the Council's recognised liability for the year, the recognised cost of pensions will not match the amount required to be raised in taxation. Any such mismatch is to be dealt with by an equivalent appropriation to or from a pension reserve. The Balance Sheet will show the net pension asset or liability and an equivalent pension reserve balance.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The next formal valuation is due on 31 March 2016.

#### **k) Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Accounts are authorised for issue.

The authorised for issue date is:

- When the Accounts are signed by the Council's Section 151 Officer for approval by Members and published with the audit opinion and certificate which should be by no later than 30 September.

Events arising after the Balance Sheet date and before either of the two dates above will be reflected in the Accounts if they provide additional evidence of conditions that existed at the Balance Sheet date and materially affect the amounts to be included (adjusting events). Such events:

- could materially alter an estimate of, for example, debtors, creditors or an impairment allowance previously identified in the accounting processes;
- could substitute a materially different actual figure for an estimate; or
- could reflect a permanent impairment or betterment in the financial position, but only where the originating event took place prior to the year-end and the amounts are considered material to the Accounts.

#### **k) Exceptional Items and Prior Period Adjustments**

Exceptional items, when they occur, are included in the cost of the service to which they relate or on the face of the Comprehensive Income and Expenditure Statement if that degree of prominence is necessary in order to give a fair presentation of the Accounts. A description of each exceptional item is given within the notes to the Accounts.

Prior period adjustments arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified and are accounted for accordingly. Material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of

fundamental errors are accounted for by restating the comparative figures for the preceding period and adjusting the appropriate opening balances for the cumulative effect.

#### **l) Financial Instruments**

Financial instruments are broken down between financial assets (cash, investments and some categories of debtors) and financial liabilities (loans payable and some categories of creditors).

Debtors and creditors are measured at fair value and are carried in the Balance Sheet at amortised cost.

Investments are broken down in two ways. Firstly, by maturity, in that any investment with a maturity date of more than 364 days after the Balance Sheet date will be classed as long-term and less than as short-term; and secondly by class of asset such as loans and receivables or available-for-sale.

Loans and receivables are assets that have fixed or determinable payments, but are not quoted in an active market, these are measured at fair value and are carried on the Balance Sheet at amortised cost.

Available-for-sale assets have a quoted active market price and do not have fixed or determinable payments. These are measured and carried on the Balance Sheet at fair value.

Accrued interest is shown as part of the investment balance. This is a departure from the Code which requires accrued interest to be shown as part of the debtors balance. Accrued interest receivable within 364 days of the Balance Sheet date will be recognised as part of the short-term investment balance on the Balance Sheet, irrespective of the date of maturity of the investment.

Realised gains and losses in relation to investments are recognised within the Comprehensive Income and Expenditure Statement under interest and investment income. Unrealised gains and losses are recognised in the Balance Sheet under the appropriate investment heading offset by an adjustment to Available-for-Sale Financial Instruments Reserve.

#### **m) Foreign Currency Transactions**

Any gains or losses arising from exchange rate fluctuations will be charged to the Comprehensive Income and Expenditure Statement in the year of payment or receipt.

#### **n) Government Grants and Other Contributions**

Revenue grants received are accrued and credited to the Comprehensive Income and Expenditure Statement in the same period as the related expenditure was incurred.

Grants specific to a service will be shown against that service expenditure line. General grant, e.g. Revenue Support Grant and New Homes Bonus are credited and disclosed separately in the Comprehensive Income and Expenditure Statement under taxation and non-specific grant income.

Capital grants and contributions (such as Section 106 developer contributions) received will be credited in full to the Comprehensive Income and Expenditure Statement on receipt where there are no conditions attached to its use and in the year that the capital expenditure is incurred where there are conditions attached to its use.

**o) Inventories**

Inventories are valued at the latest price paid. This is a departure from the requirements of the Code and IAS 2 (Inventories), which require stocks to be shown at actual cost or net realisable value, if lower. The difference in value is not considered to be material.

**p) Leases**

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. A definition of a lease includes hire purchase arrangements.

**Finance Leases**

The Council currently has no finance lease arrangements where it is the lessor or where it is a lessee other than in respect of what is termed embedded leases as explained below.

Embedded leases are where assets, although not owned by the Council, are used primarily by the Council for service delivery. An example of this would be vehicles used by the Council's Refuse Collection and Recycling and Street Cleansing contractor. In this case an estimated value and useful life has been used. Assets are recognised in the Balance Sheet at the net depreciated value and offset by a deferred liability.

**Operating Leases**

Lease payments under an operating lease shall be recognised as income or an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the benefits received by the Council where the Council is a lessor or lessee respectively.

**q) Non-Current Assets**

The Council has set a de-minimis level of £5,000 for the purposes of capital expenditure. In the case where the individual value of an item, e.g. computer is below the de-minimis level, but the aggregate value of similar items purchased in the year exceed the de-minimis level the expenditure may be treated as capital expenditure.

**Property, Plant and Equipment**

Property, plant and equipment are tangible assets (i.e. assets with physical substance) that are held for use in the production or supply of goods and services or for administrative purposes and expected to be used during more than one period.

Property, plant and equipment is split into five classes as described below.

Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets
Community Assets	Assets Under Construction	

The policy for each type of asset is explained below.

Land and Buildings

The Borough Council has a policy of revaluing its property assets on a rolling programme such that the intervals between valuations do not exceed 5 years. The programme is as follows:

<b>Asset Category</b>	<b>Year of Valuation</b>	
Council Offices	2010/11	Completed
Car Parks	2011/12	Completed

Leisure Premises	2012/13	Completed
Properties for Community Use	2013/14	Completed
Public Conveniences	2014/15	Completed
Council Offices	2015/16	Completed

In addition to the valuation of the asset category above the Code requires the Council to consider material changes in other assets not due for revaluation in year under the five year rolling programme. The Council's external valuers will undertake interim valuations in respect of our major assets, i.e. council offices, leisure premises and car parks where appropriate. Where the interim valuation shows a movement of £100,000 or more the Balance Sheet values will be updated accordingly. The Council's external valuers will also advise annually on any further work required to identify material changes in asset valuations.

The valuations reviews are carried out by a qualified surveyor in accordance with the latest guidance issued by the Royal Institution of Chartered Surveyors (RICS) and based on the market value for existing use or where a market value cannot be determined as the property is of a specialist nature the depreciated replacement cost. The method used on the current year's valuation will be explained in the notes to the Accounts. Items of plant that are integral to the operation of a building are included in the valuation for that building.

All buildings are subject to straight line depreciation over their estimated useful lives which range between 15 and 50 years depending on the building. In accordance with the Code land is not depreciated.

The Note to the Core Financial Statements in respect of Non-Current Assets provides details of the asset class, Land and Buildings, rather than for each of the categories listed above that make up that asset class. This departure from the requirements of the Code has no financial impact and is not considered to detract from the message being given to the reader of the accounts.

Under the Code the Council is required to consider componentisation of significant parts of an asset, where they are of a material financial nature or have significantly differing life expectancies. The Council, following a review of the property, plant and equipment asset registers has decided that the Council's offices and major leisure facilities will be the subject of componentisation if the replacement value of the component is in excess of £100,000.

#### Vehicles, Plant and Equipment

Vehicles, Plant and Equipment, other than plant that is integral to the operation of a building, are recognised in the Balance Sheet at historic cost and are subject to straight line depreciation over a period of between 2 and 30 years.

#### Infrastructure Assets

These are non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of Infrastructure Assets are street furniture, footpaths and signage.

These assets are carried on the Balance Sheet at historic cost.

These assets are subject to straight line depreciation over a period of between 3 and 40 years.

### Community Assets

These are non-current assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of Community Assets are parks and open spaces.

These assets are carried on the Balance Sheet at historic cost and are not subject to revaluation or depreciation.

### Assets under Construction

This covers assets not yet ready for operational use, but expected to be operational within twelve months of the Balance Sheet date. Assets under Construction are not subject to revaluation or depreciation.

### **Heritage Assets**

Heritage assets are defined as a tangible or intangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

Heritage assets where the Council holds information on their cost or value, via insurance or valuation records are to be recognised on the Balance Sheet. Where the Council does not hold information on the cost or value and it is considered that the cost of obtaining this information outweighs the benefit to the reader of the accounts such details as the Council holds are to be included in the notes to the financial statements.

The value of Heritage assets recognised on the Balance Sheet is to be subject to review at intervals not exceeding 5 years.

Heritage assets are not subject to depreciation.

### **Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals income received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.



Investment properties are not subject to depreciation.

### **Intangible Assets**

These are non-current assets that do not have physical substance, but are identifiable and controlled by the Council through custody or legal rights. Intangible Assets held by this Council currently consist of IT software and associated costs.

Intangible Assets are recognised on the Balance Sheet at historic cost, are not subject to revaluation, but are amortised over their useful economic life assessed to be 5 years for IT software and associated costs.

### **Impairment of Non-Current Assets**

A review for impairment of a non-current asset whether carried at historical cost or valuation should be carried out if events or changes in circumstances indicate that the carrying amount of the non-current asset may not be recoverable. Examples of events and changes in circumstances that indicate impairment may have been incurred include:

- a significant decline in a non-current asset's market value during the period;
- evidence of obsolescence or physical damage to the non-current asset;
- a significant adverse change in the statutory or other regulatory environment in which the Council operates; and
- a commitment by the Council to undertake a significant reorganisation.

In the event that impairment is identified the value will either be written off to the revaluation reserve, where sufficient reserve levels for that asset exist or written off to revenue through the Comprehensive Income and Expenditure Statement. Any impairment at the Balance Sheet date is shown in the notes to the core financial statements, along with the name, designation and qualifications of the officer assessing the value of the impairment.

### **Gains or Losses on Disposal of Non-Current Assets**

When an asset is disposed of or de-commissioned, the net book value of the asset and the receipt from the sale are both charged to the Comprehensive Income and Expenditure Statement which could result in a net gain or loss on disposal.

Receipts in excess of £10,000 are categorised as capital receipts. The receipt is required to be credited to the usable capital receipts reserve and can only be used to finance capital expenditure. Receipts below £10,000 are considered de-minimis and treated as revenue.

The net gain or loss on disposals has no impact on taxation requirements as the financing of non-current assets is provided for under separate arrangements.

## **r) Overheads**

The majority of management and administrative expenses, including buildings, are allocated to Services. Costs of Support Services are allocated on the basis of estimated time spent by officers on Services and costs of buildings are apportioned on a floor area basis. The costs of Corporate Management and Democratic Core, resulting from the Council being a multifunctional organisation, are allocated to a separate objective head and, in accordance with the Code, are not reapportioned.

**s) Provisions**

The Council sets aside provisions for liabilities or losses that are either likely to, or certain to be incurred, but uncertain as to the amount or the date on which they will arise.

Provisions are recognised when:

- the Council has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

**t) Reserves**

The Council maintains both general and earmarked reserves. General reserves are to meet general rather than specific future expenditure and earmarked reserves, such as the building repairs reserve are for specific purposes. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the Comprehensive Income and Expenditure Statement, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

**u) Revenue Expenditure Funded from Capital Under Statute**

This is expenditure of a capital nature on non-current assets not owned by the Council, for example house renovation grants. Under the Code this is revenue expenditure and as such the expenditure is charged in full to the relevant service revenue account in the Comprehensive Income and Expenditure Statement in the year it is incurred. Statute, however, allows such expenditure to be funded from capital resources. In our case such expenditure is mainly funded from reserves.

**v) Value Added Tax (VAT)**

VAT is included within the Comprehensive Income and Expenditure Statement, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Delegated

### 1 INTERNAL AUDIT CHARTER

**The purpose of the report is to inform Members of the outcome of the review of the Internal Audit Charter.**

#### 1.1 Introduction

1.1.1 The Internal Audit Charter is a key document in the delivery of Internal Audit, setting out the purpose, authority and responsibility of the internal audit function. It is subject to regular review and approval by the Audit Committee.

1.1.2 Proper practice for Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the Standards. The PSIAS require that "The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards."

#### 1.2 Review of the Internal Audit Charter

1.2.1 The current Internal Audit Charter was approved by the Audit Committee in January 2015. A review of the Charter found that it continues to meet the requirements of the PSIAS and CIPFA's Local Government Application Note to the Standards and that no substantive amendments to the content are required. A copy of the updated Charter is attached at **[Annex 1]**.

1.2.2 Members will note that the document has been updated to reflect the shared service arrangement with Kent County Council. In particular, the Audit and Assurance Manager is named as the officer fulfilling the role of the Chief Audit Executive (CAE) under the Public Sector Internal Audit Standards following the departure of the Chief Internal Auditor.

1.2.3 A separate part 2 report regarding the establishment structure, including the role of CAE, will be presented to General Purposes Committee on 1 February. Effectively, the re-drafting of this Charter anticipates the outcome of this report to General Purposes Committee.

### **1.3 Legal Implications**

- 1.3.1 Section 151 of the Local Government Act 1972 requires the Council to “make arrangements for the proper administration of their financial affairs”. Further to this, the Accounts & Audit Regulations require a relevant body to “undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.”
- 1.3.2 The Internal Audit Charter is based upon the requirements set out in the PSIAS and the CIPFA Local Government Application Note which is identified as “proper practice” for internal audit.

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

- 1.4.1 An adequate and effective internal audit function provides the Council with assurance on the proper, economic, efficient and effective use of 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.

### **1.5 Risk Assessment**

- 1.5.1 The Internal Audit Charter establishes the purpose, authority and responsibility of the Council’s internal audit function. It is, therefore, vital that the Council periodically reviews the Charter to ensure that the internal audit function is effective in delivering its responsibilities and that the Charter itself is compliant with proper practice.
- 1.5.2 The Internal Audit Charter has been prepared with due consideration to proper practice, as set out in the PSIAS and the CIPFA Local Government Application Note to the PSIAS. It is, therefore, considered that adequate action has been taken to minimise the risk that external assessment could consider the Charter to not meet proper practice.

### **1.6 Equality Impact Assessment**

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

### **1.7 Recommendations**

- 1.7.1 Members are asked to **note** and **approve** the attached Internal Audit Charter.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland  
Audit and Assurance Manager (and Acting Chief Internal Auditor)



## INTERNAL AUDIT CHARTER

### Purpose

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### Authority

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

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

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

### Professionalism and Professional Standards

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

### Organisational Relationships

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

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

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



## INTERNAL AUDIT CHARTER

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

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

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

### *Relationship with the Monitoring Officer*

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

### *Relationship with the Chief Executive & Head of Paid Service*

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

### *Relationship with Management Team*

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

### *Relationship with the Audit Committee*

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

### *Relationship with External Audit*

The CAE will liaise with External Audit to:

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

In particular the CAE shall:

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



## INTERNAL AUDIT CHARTER

### Independence and Objectivity

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

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

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

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

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

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

### Responsibility

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

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

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

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



## **INTERNAL AUDIT CHARTER**

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

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

### **Partnership Working**

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

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

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

- engaged agency staff;
- engaged consulting services.

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

### **Internal Audit Plan**

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

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

### **Reporting and Monitoring**

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

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





## INTERNAL AUDIT CHARTER

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

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

### **Quality Assurance and Periodic Assessment**

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

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

Signed by:

Chief Audit Executive (CAE)

Chair of the Audit Committee

Last reviewed January 2015

Current version January 2016

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Delegated

#### 1 PROPOSED WORK PROGRAMME AND SCALES OF FEES 2016/17

**This report informs Members of the Proposed Work Programme and Scales of Fees for 2016/17 pertaining to work undertaken by our external auditors.**

#### 1.1 Introduction

1.1.1 Public Sector Appointments Limited (PSAA) an independent company set up by the Local Government Association is responsible for setting fees, appointing auditors and monitoring the quality of auditors' work on a transitional basis. Before 1 April 2015, these responsibilities were discharged by the Audit Commission. PSAA will oversee the audit contracts until they end in 2018.

1.1.2 The Proposed Work Programme and Scales of Fees for 2016/17 can be found at **[Annex 1]**. The PSAA do not plan to make any changes to the overall work programme for 2016/17 and propose that 2016/17 scale audit fees and indicative certification fees are set at the same level as the scale fees applicable for 2015/16.

1.1.3 Members should note that this is technically a consultation process and the return date for comments was 15 January 2016. It was considered on this occasion there were no particular comments that needed to be made in response to the consultation.

1.1.4 Following consideration of responses to this consultation, the PSAA Board will approve the final 2016/17 Work Programme and Scales of Fees for publication in late March 2016.

#### 1.2 Legal Implications

1.2.1 Legally, we have no choice but to accept the final version of the Work Programme and Scales of Fees for 2016/17 and will continue to cooperate with our external auditors who serve us.

**1.3 Financial and Value for Money Considerations**

1.3.1 Taken as one the audit fee for 2016/17 and the indicative fee for grant certification work can be met from within existing budget provision.

**1.4 Risk Assessment**

1.4.1 None.

**1.5 Equality Impact Assessment**

1.5.1 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.

**1.6 Recommendations**

1.6.1 Members are asked to note and endorse the 2016/17 Proposed Work Programme and Scales of Fees.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Sharon Shelton  
Director of Finance and Transformation

# Proposed work programme and scales of fees 2016/17

Local government and police bodies

October 2015

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.**

**Before 1 April 2015, these responsibilities were discharged by the Audit Commission.**

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## Introduction

- 1 This consultation document sets out the work that auditors will undertake at local government and police audited bodies during 2016/17, with the associated proposed scale audit fees and indicative certification fees. A separate consultation document covers the [work programme and scales of fees at local NHS bodies](#).
- 2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [small bodies' fees page](#) of our website.
- 3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2016/17 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

- 4 The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.
- 5 PSAA will oversee the Commission's audit contracts for local government and police bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements for one year. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on [PSAA and its responsibilities](#) is available on our website.

## 2016/17 fees

- 6 Scale fees for 2015/16 were set by the Audit Commission before it closed. The Commission reduced 2015/16 scale fees by 25 per cent based on the fees applicable for the previous year, in addition to the 40 per cent reduction in fees from 2012/13. The expectation is that these substantial fee reductions will continue to apply for the length of the audit contracts, providing there are no significant changes to auditors' work, and subject to annual review.
- 7 There are no planned changes to the overall work programme for local government and police audited bodies for 2016/17. We propose that 2016/17 scale audit fees and indicative certification fees are set at the same level as the scale fees applicable for 2015/16.
- 8 PSAA may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.
- 9 For some authorities a change in accounting requirements in 2016/17 relating to highways infrastructure assets will require additional audit work. The fee variation process will apply in 2016/17 for this additional work, because the amount of work will vary at each applicable authority in the first year of implementation of the new requirements.



## Fees beyond 2016/17

**10** The current contracts with audit firms will run until 2018, covering completion of the audit of the accounts for 2017/18, as DCLG has confirmed that the transitional arrangements will be extended by one year. PSAA will therefore set fees for 2017/18 audits. We would expect to consult on the 2017/18 work programme and scales of fees in late 2016, and publish the confirmed scale fees in March 2017.

## Redistribution of surplus

**11** Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established now the position on transitional arrangements has been clarified by DCLG. The amount of the redistribution, based on current information, is likely to be in the order of 15 per cent of scale audit fees for local government and police bodies.

### Responding to this consultation

We welcome comments from stakeholders on the proposals contained in this document.

Please send comments by email to:

[workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk)

or by post to Jon Hayes, Chief Officer, at:

Public Sector Audit Appointments Limited  
3rd Floor  
Local Government House  
Smith Square  
London SW1P 3HZ

The consultation will close on **Friday 15 January 2016**.

## Proposed work programme for 2016/17

### Audit

**12** Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory [Code of Audit Practice](#) and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. Further information on the NAO Code and guidance is available on the [NAO website](#).

**13** Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks.

### Audit work on highways infrastructure assets

**14** CIPFA/LASAAC is expected to confirm, subject to the outcome of consultation, that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets*, for highways infrastructure assets.

**15** There is no reliable and equitable way of establishing at this stage the volume of additional audit work, and therefore the fees required, at each applicable local authority because:

- a) the amount of work needed will depend on the value of each authority's highways infrastructure assets, and the consequent impact of the change in reporting requirements on their financial statements;
- b) authorities are at different stages in preparing for implementation, making it difficult to estimate at this stage the amount of work auditors will need to undertake in each case;
- c) as with other financial reporting changes, it is likely that the first year of implementation will require more audit work than in subsequent years, so it would not be appropriate to increase scale fees on the basis of the work needed in the first year; and
- d) there is a possibility that some form of central assurance arrangements may be implemented using an approach that CIPFA is developing, which could help to contain the amount of additional audit work required.

**16** Fees for the additional work identified by auditors at individual audited bodies in 2016/17 will be subject to approval under the normal fee variations process. We expect the additional fees for a highway authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. Fees for non-highway authorities with material highways infrastructure assets should be below £5,000 where the same conditions apply.

## Auditors' local value for money work

**17** Under the Local Audit and Accountability Act 2014, auditors are required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money arrangements conclusion).

**18** Auditors will apply a risk-based approach to their local value for money work, giving a conclusion on the arrangements in place. The NAO's Code of Audit Practice and supporting guidance for auditors set out the approach and reporting criteria applicable for principal bodies.

**19** A value for money arrangements conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million and which are subject to a limited assurance review. This is in line with the threshold set in the Local Audit and Accountability Act 2014 defining smaller relevant bodies, and the requirements of the Accounts and Audit (England) Regulations 2015.

**20** Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a value for money arrangements conclusion.

## Certification work

**21** At the request of the Department for Work and Pensions (DWP), auditors appointed under the audit contracts will certify local authority claims for housing benefit subsidy for 2016/17. Auditors will undertake this work as agents of PSAA, using guidance based on the arrangements previously developed by the Audit Commission.

## National report

**22** PSAA will publish a report summarising the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money.

## Proposed scales of fees for 2016/17

### Scales of audit fees for local government and police bodies

**23** The scales of fees for 2016/17 reflect the cost of the work programme outlined above. The proposed 2016/17 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**24** The proposed scale audit fees for 2016/17 audits are the scale fees applicable for 2015/16.

**25** PSAA has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

**26** As the 2016/17 scale fees are based on the scale fees for 2015/16, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2016/17 where these factors are significantly different from those identified and reflected in the 2015/16 scale fee.

**27** PSAA obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. We consider the reasonableness of the explanations provided by auditors, and seek confirmation that an audited body has been consulted about a proposed variation, before agreeing to any variation to the scale fee. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by PSAA.

**28** We will continue to keep the scale fees for particular groups of bodies under review, including police bodies and pension fund audits, to ensure they remain consistent with auditors' local assessments of audit risks.

**29** PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

### Pension fund audits

**30** The proposed scale fees for 2016/17 pension fund audits are the scale fees applicable for 2015/16. The proposed [pension fund](#) audit scale fee for each relevant audited body for 2016/17 is available on our website.

### Certification work

**31** The statutory duty to make certification arrangements, delegated to PSAA by the Secretary of State for the purpose of certifying housing benefit subsidy claims, requires PSAA to charge fees that cover the full cost of certification work.

**32** An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2016/17 housing benefit

subsidy certification work will be based on final 2014/15 certification fees. We will receive this information from auditors in January 2016, after this consultation has closed, and will publish indicative 2016/17 certification fees on our website in March 2016.

**33** For the purposes of this consultation, audited bodies and stakeholders may wish to refer to the [indicative certification fees for 2014/15](#), published on our website.

**34** Indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

**35** We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

### **Value added tax**

**36** All the 2016/17 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Next steps

**37** PSAA has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, we are required to consult relevant representative organisations.

**38** We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Friday 15 January 2016**.

Please send comments by email to:

[workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk)

or by post to Jon Hayes, Chief Officer, at:

Public Sector Audit Appointments Limited  
3rd Floor  
Local Government House  
Smith Square  
London SW1P 3HZ

**39** Following consideration of responses to this consultation, the PSAA Board will approve the final 2016/17 work programme and scales of fees for publication in late March 2016.

**40** If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk).

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 INTERNAL AUDIT AND FRAUD INVESTIGATION UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period 1 April 2015 to 31 December 2015.

#### *Internal Audit Update*

#### 1.1 Introduction

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

#### 1.2 Progress against the 2015/16 Internal Audit Plan

- 1.2.1 The Annual Internal Audit Plan (the Plan) for 2015/16 was approved by this Committee on the 7 April 2015. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2015/16 against that Plan.
- 1.2.2 The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the 36 items on the Plan, 29 are audits that will result in an assurance opinion. The remainder of items on the plan relate to consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.
- 1.2.3 Of the 29 audits, the team have issued final reports and agreed management action plans in respect of seven. (See **[Annex 1]** for definitions of audit opinions). Draft reports have been issued for a further three audits with four audits currently underway. Planning is in progress for the remaining audits due in quarter four. A

summary of the current status of all audits on the 2015/16 Plan including a summary of findings where finalised, is attached to this report at **[Annex 2]**.

- 1.2.4 In accordance with the PSIAS, and to provide assurance that issues identified in audits undertaken have been addressed through agreed actions, Internal Audit follow-up implementation of all recommendations made. Up to 30 November 2015 75 outstanding recommendations were due for implementation, of these 40 have been completed and 3 have revised dates agreed (none of which were high risk). The remaining 32 cannot be closed off at this time; of these we are awaiting a response from the Service for 15 and for the remaining 17 further clarification is needed. This includes instances of verbal confirmation where evidence is awaited or where the service has queried the original recommendation due to change of circumstance, etc. Detail is provided at **[Annex 3]**.

### ***Fraud Update***

## **1.3 Prevention and Detection of Fraud and Corruption**

- 1.3.1 This section of the report provides details of the Council's activity in preventing and detecting fraud and corruption in the year 2015/16 to date.
- 1.3.2 The Council proactively takes part in the National Fraud Initiative (NFI). This is a nationwide data matching exercise, comparing computer records held by the Council against computer records held by other councils and other bodies. Where a match is found it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.
- 1.3.3 In October 2014 the Council submitted data for the 2014/15 NFI exercise and the results of this exercise were received in January 2015 with 1,429 matches received relating to benefits, payroll, finance and licensing, all cases have been reviewed and closed. Data in relation to a Council Tax Single Person Discount matching exercise was submitted in December resulting in a total of 1,390 matches to be reviewed.
- 1.3.4 Following the transfer of Housing Benefit Fraud investigation to the DWP proactive work in relation to preventing and detecting fraud, and managing the risk of fraud, will be enhanced. This will involve a broader scope which will be identified through an assessment of fraud risk in relation to all Council services. Going forward the Team will continue to investigate allegations of fraud for the Council Tax Reduction Scheme, Discounts and Exemptions in relation to Council Tax and NNDR and other allegations relating to TMBC services. A Plan for 2016/17 is currently being drafted and will be presented to this Committee at the April meeting with the 2016/17 Annual Internal Audit Plan. In addition, and to demonstrate TMBC's ongoing commitment to prevent and detect fraud, the Team will be formalising compliance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, which contains five key principles to:



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

1.3.5 Further detail will be reported to the April Committee alongside approval of the 2016/17 Internal Audit and Counter Fraud Plan.

## **1.4 Investigating Fraud**

1.4.1 The Fraud Team is responsible for investigating allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required. The Team works closely with a number of external agencies including the Department for Work and Pensions (DWP), the UK Border Agency, Kent Police and NHS Fraud to progress investigations. As of 1 January 2016 the Team no longer investigate allegations of Housing Benefit Fraud, which will now be undertaken by the DWP. On 2 February 2016 all current cases will physically be handed over to the DWP.

1.4.2 In 2015/16 to 31 December, the Investigation Team have closed 264 cases having received a total of 239 referrals in the same period, there are 58 open investigations of which 37 Housing Benefit Fraud Investigations are to be handed over to the DWP. **[Annex 4]** summarises the results of investigations concluded in 2015/16 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 maintaining a high profile. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

## **1.7 Risk Assessment**

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

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland

Audit and Assurance Manager (and Acting Chief Internal Auditor)

## Definitions of Audit Opinions

**Green** – Risk management operates effectively and objectives are met

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

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

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

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

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

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

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## 2015-16 Internal Audit Assurance Reviews

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

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

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

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Corporate Credit Cards	2	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RM01 - Policy and processes for the issue, usage, security and return of Corporate Credit Cards are adequate.</p> <p>Opinion: Amber. There is no formal policy on who cards will be issued to and why, although all were appropriately authorised. Testing established some instances where cards were not held securely or were used by individuals other than the card holder.</p> <p>RM02 - Corporate Credit Cards are being used in line with policy.</p> <p>Opinion: Amber. Testing established that authority in relation to individual purchases is retrospective and therefore adds little in terms of control. Guidance does not make clear that purchases should not be spit to circumvent limits and one instance was identified where this had happened. However, no inappropriate spend was identified.</p> <p>RM03 - : Exchequer procedures to process Corporate Credit Cards are appropriate and followed in practice.</p> <p>Opinion: Green. Testing established that all purchases were supported by an authorised form and were correctly allocated against budget codes. There is potential to streamline the process through introduction of a monthly form rather than one per transaction.</p>
Homelessness	2	In progress		
Insurances	2	Planning – delayed to Q4		



Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Expenses claims	2	Complete	Green	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate policies and procedures in place for the reimbursement of staff travel and subsistence claims. Opinion: Green. Testing established that there are a variety of guidance documents and claim forms; while comprehensive some updating to ensure consistency was required.</p> <p>RM02 - Claims are verified, processed and paid correctly and appropriately. Opinion: Green. Testing established that all claims were appropriately authorised and correctly paid. Where roles require multiple location visits the level of information on claim forms could be improved to assist verification.</p>
Complaints handling	2	Complete	Amber	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are adequate arrangements in place for complaints handling Opinion: Amber: Testing established that there are adequate arrangements for complaints to be made and those complaints tested had been responded to reasonably. No complaints escalated to the Ombudsman had been upheld. However there was a lack of consistency in recording and in the information provided in response to complaints on how to escalate if dissatisfied; we acknowledge that a new computerised system is currently being implemented which should address this issue as well as providing the opportunity to enhance monitoring.</p>
Property management	2	Planning – delayed to Q4		
Housing register and allocations	2	Draft report	TBC	
Refuse and Recycling contract monitoring	3	Planning		

<b>Audit Review Title</b>	<b>Planned Quarter</b>	<b>Current Status</b>	<b>Audit Opinion</b>	<b>Scope of Audit and Findings</b>
Youth and Play Development	3	On hold		
Environmental protection	3	In progress		
Tonbridge Castle Facilities Hire	3	Draft Report	TBC	
Contingency Planning & Disaster Recovery	3	Planning		
Building Control	3	Planning		
Members' Allowances	3	In progress		
Sickness Absence Monitoring	4	Planning		
Housing Benefit Assessments	4	Planning		
Section 106 Arrangements	4	Planning		
Community Safety Partnership	4	Planning		
Licensing Functions (exc Alcohol and Taxis)	4	Planning		
Corporate Policy Maintenance	4	Planning		
Empty Properties	4	Planning		
IT Helpdesk	4	Planning		
Data Protection	4	Planning		

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

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

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

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

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

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
P, H & EH	Housing and Financial Assistance	Retain electronic or hard copies of all confirmation replies from other interested Council teams when checking for outstanding debt or fraud <del>investigation (listed as ongoing check in</del>	Low	30/09/2015	Awaiting Response	
P, H & EH	Housing and Financial Assistance	Be consistent in the use of I/We in all agreements, particularly where there is a joint application or <del>joint landlords</del>	Low	30/09/2015	Awaiting Response	
P, H & EH	Housing and Financial Assistance	As advances can be repaid over a period of 6-12 months, and be extended further, consider using a 'rolling spreadsheet' rather than annual <del>spreadsheet to better monitor cases which cross</del>	Low	30/09/2015	Awaiting Response	
P, H & EH	Housing and Financial Assistance	Improve and streamline the customer experience when applying for Housing Financial Assistance and / or Discretionary Housing Payments; consider amending the Housing financial assistance application form to include a section for eligible applicants are able to request Discretionary Housing Payment where applicable, and instigate a joined-up approach where the teams share information to <del>conduct one set of checks and source of client</del>	Medium	31/10/2015	Awaiting Response	
Central	Complaints Handling	Include reports, with an appropriate level of detail, on complaints and resolutions as a standing agenda item at service level team meetings, departmental team meetings and management team meetings to give an overview of complaints within the Council <del>and as an early indicator of possible escalations</del>	Medium	31/07/2015	Adequate	
Central	Complaints Handling	Use the implementation of the new complaints handling system to perform a review of both the Corporate Complaints Policy and Procedure in line <del>with LGO guidance</del>	Medium	30/09/2015	Awaiting clarification	
Central	Complaints Handling	Ensure all relevant employees are aware of the complaints procedures and requirements, including <del>a complainant's right to escalate their complaint</del>	Medium	30/09/2015	Awaiting clarification	
Central	Complaints Handling	Either expand the racial incidents section of the complaints form (or equivalent under the new system) to include complaints about any form of discrimination by the Council, or remove the section <del>as all complaints and allegations should be</del>	Low	30/09/2015	Awaiting clarification	
Central	Complaints Handling	Update as part of the complaints review, the Council's policy and procedures on compensation arising from complaints, ensuring that doing so <del>complies with any requirements for Committee</del>	Medium	30/11/2015	Awaiting clarification	
Central	Personal and Premises Licences	Investigations should be carried out to establish the rateable value of the Olive Stores to ensure the <del>correct application fee has been levied</del>	Medium	01/10/2014	Adequate	
Central	Personal and Premises Licences	Ensure that a Disclosure of Convictions and Declaration Form is received and stored on file for <del>all applications prior to a personal licence being</del>	Medium	01/11/2014	Adequate	
Street Scene	Grounds Maintenance	Ensure all payments for the 2015-2019 Grounds Maintenance Contract are made to the correct <del>finance code for the Contractor</del>	High	31/05/2015	Adequate	
Street Scene	Grounds Maintenance	Ensure that the Contractor is consistently referred to as <del>Landscape Services</del>	Low	31/05/2015	Adequate	
Street Scene	Grounds Maintenance	Increase the number of ad-hoc Health and Safety inspections to one a month during the off-peak <del>season to three or four during peak periods</del>	Medium	30/06/2015	Adequate	
Street Scene	Grounds Maintenance	Expand the scope of the inspection form to include comment on quality of work and other relevant areas. This could be as simple as a text box for other <del>comments</del>	Low	30/06/2015	Adequate	
Street Scene	Grounds Maintenance	Ensure inspection forms are promptly filed; consider scanning forms if the handwritten version is legible (avoiding time required to type up forms) <del>or seek to introduce mobile technology</del>	Low	30/06/2015	Adequate	
Street Scene	Grounds Maintenance	Implement monitoring arrangements to keep a track of all health and safety inspections, Playground inspections and well any issues found in the course of routine work. It is suggested this could be through a simple spreadsheet showing date of inspection, name of inspector, inspection type, <del>result, comments, follow up action, resolution</del>	Medium	30/06/2015	Adequate	
Street Scene	Grounds Maintenance	Review the Health and Safety Monitoring Note and amend following consultation with the Health and Safety Officer, taking account of the comments and <del>suggestions made in point 4.16 of this report</del>	Low	30/09/2015	Awaiting clarification	
Central	Personal and Premises Licences	Ensure that the receipts screen on Uniform is <del>appropriately updated when payments are received</del>	High	01/11/2014	Adequate	
Central	Personal and Premises Licences	Ensure that when applications are received, the rateable value is checked against the Valuation <del>Office Agency Website</del>	Low	01/11/2014	Adequate	
Central	Personal and Premises Licences	Ensure that the case reference or surname is used as a narrative for all payments on Integra for ease of <del>reference</del>	Medium	01/11/2014	Adequate	
Central	Personal and Premises Licences	Information should be provided on the councils website on how to contact the council regarding <del>licence breaches</del>	Low	30/09/2015	Adequate	

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
Street Scene	Leisure Trust Contract	In the interests of Business Continuity, and given that staff from several teams have input into the monitoring of Leisure Trust contract, an organogram should be compiled and maintained that details which Council officers have input and their responsibilities: if possible include their TMIT	Low	31/08/2015	Adequate	
Street Scene	Leisure Trust Contract	Improve the structure and consistency of the electronic filing of all relevant documentation on a shared drive folder with access available to all relevant staff, including copies of files received from support and maintenance services.	Low	31/08/2015	Adequate	
Street Scene	Leisure Trust Contract	Periodically monitor uptake of each of the available schemes to ensure that all sectors of the community are taking advantage of the facilities.	Low	31/10/2015	Awaiting Response	
Street Scene	Leisure Trust Contract	Create and use site visit forms which details what should be checked on each visit, using a risk based approach so that all required checks are performed at each premises throughout the year, plus room for comments and action points.	High	31/07/2015	Awaiting clarification	
Street Scene	Leisure Trust Contract	Create and use a matrix detailing what checks and meetings are required throughout the course of the year, so that any deficiencies in monitoring or receipt of reports, meetings or other functions can be identified and rectified or explained.	High	31/07/2015	Awaiting clarification	
Street Scene	Leisure Trust Contract	Conduct a review of the Management Agreement and other relevant agreements to identify all aspects which require monitoring and perform a risk based analysis to decide how often each aspect should be checked. This should form the basis of the Site Inspection Form, a monitoring matrix, identify whether any aspects are not being discussed at review or strategic meetings, and help ensure that all monitoring is relevant and proportionate to the	High	31/07/2015	Awaiting clarification	
Finance	Corporate Credit Cards	Introduce a basic internal card holder request form for Corporate Credit Cards, and retain on file. It should include the name, job title and service of the applicant, the business case including proposed limits, Service Director's comments approval and Director for Finance and Transformation's (or delegated officer's) comments and approval. A section should be included to request changes in limits which should also be approved by the Director of Finance and Transformation or delegated officer. This should be done from	Low	30/11/2015	Adequate	
Finance	Corporate Credit Cards	Authorisation for cards to be issued and any amendments should be by the Director of Finance and Transformation, or delegated officer. Changes and authorisation should not be authorised by a less senior officer and therefore amendments to the Director of Finance and Transformation's card should be authorised by the Chief Executive	Medium	30/11/2015	Adequate	
Finance	Payroll	Termination Forms should be completed for casual staff who have not worked /submitted a time sheet for 6 months or more.	Low	31/08/2015	Adequate	
Finance	Payroll	Personnel should instigate procedures to ensure that payments for early termination fees on lease cars are reclaimed promptly.	Medium	31/07/2015	Adequate	



Fraud type	Cases closed	No evidence of fraud	Customer Error or Incorrect benefit/ discount	Passed to DWP	Fraud proven*	Reduction in benefit**	Total overpayments	Increase in liability**
Housing	3	2	0	0	1	N/A	N/A	N/A
Council Tax Reduction only	5	3	0	2	0	0	0	0
Housing Benefits only	17	7	5	3	2	Incorporated below	£15,852.64	N/A
Housing Benefits and Council Tax Reduction	177	104	13	50	10	£3,724.65	£104,967.63	£534.49
Council Tax Discounts and Exemptions only	62	32	30	0	0	N/A	£15,665.86	£14,160.37
	264	148	48	55	13	£3,724.65	£136,486.13	£14,694.86

\*For cases where fraud was proven sanctions were as follows

8 Cautions

2 Administrative penalty totalling £2,615.77

3 Criminal Prosecution, both of which resulted in successful convictions

In addition 23 Fixed Penalties were issued in relation to Council Tax Discounts or Exemptions totalling £1610 (fully retained by TMBC)

\*\* Annual figures

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Matters for Information

#### 1 ANNUAL AUDIT LETTER

The purpose of the report is to inform Members of the receipt of the Annual Audit Letter.

#### 1.1 Introduction

1.1.1 As in previous years the Annual Audit Letter summarises the main outcomes from the work carried out by our external auditors and in this case for the year ended 31 March 2015. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in September.

1.1.2 The Letter is the prime means through which the results of audit and performance assessment work are communicated to Members, the public and other stakeholders. A copy of the Annual Audit Letter for the year 2014/15 is attached at **[Annex 1]**.

1.1.3 I arranged for the Letter to be circulated to all Members by e-mail and for it to be made available on the Council's website.

1.1.4 The key messages drawn from the letter are set out below:

- 1) The Council's accounts were produced to a high standard.
- 2) The Council continues to have an effective framework of financial control and robust arrangements for financial governance.
- 3) It has a structured approach to addressing financial pressures within a strong medium term planning framework, and a history of achieving planned savings.
- 4) Going forward the Council recognises that a wider approach to transformation will be required and is preparing a revised corporate strategy to address this.

**1.2 Legal Implications**

1.2.1 The Audit Letter fulfils the requirement to communicate the results of audit activity to Members, the public and other stakeholders.

**1.3 Financial and Value for Money Considerations**

1.3.1 None.

**1.4 Risk Assessment**

1.4.1 The work carried out by our external auditors gives an independent and informed opinion of the Council's performance and financial management and is an important component of the Council's accountability to its residents and taxpayers.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation

# The Annual Audit Letter for Tonbridge & Malling Borough Council

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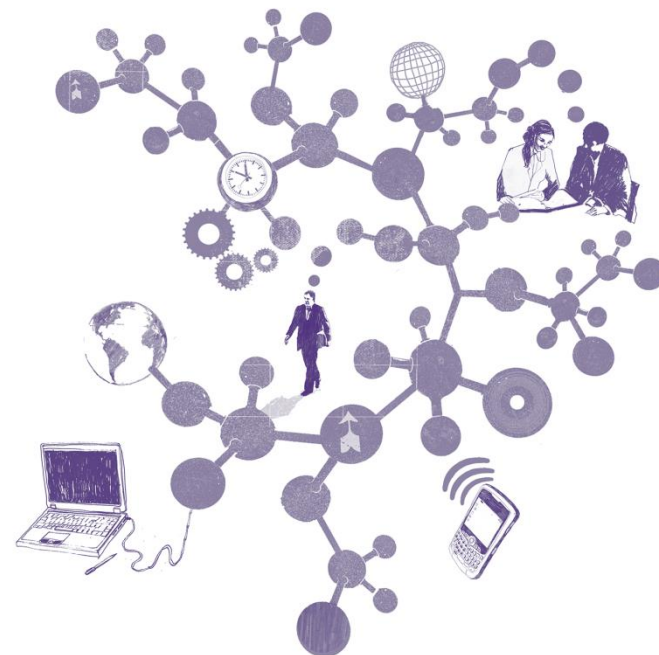
**Year ended 31 March 2015**

October 2015

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## **Appendices**

A Summary of reports and audit fees

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# Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Tonbridge & Malling Borough Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

<b>Financial statements audit (including audit opinion)</b>  Page 151	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report to the Audit Committee on 7 September 2015. The Council's accounts were produced to a high standard. Only a small number of audit amendments were required.</p> <p>We issued an unqualified opinion on the Council's 2014/15 financial statements dated 23 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<b>Value for Money (VfM) conclusion</b>	<p>We issued an unqualified VfM conclusion for 2014/15 dated 23 September 2015.</p> <p>We concluded that the Council continues to have an effective framework of financial control and robust arrangements for financial governance. It has a structured approach to addressing financial pressures within a strong medium term planning framework, and a history of achieving planned savings. Going forward the Council recognises that a wider approach to transformation will be required and is preparing a revised corporate strategy to address this.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p>

# Key messages continued

<b>Certification of housing benefit grant claim</b>	For the financial year 2014/15 we are required to certify the Council's housing benefit subsidy claim, which has a certification deadline of 30 November 2015. Our work to certify this claim is still in progress.
<b>Audit fee</b>  Page 152	<p>Our audit fee for 2014/15 was £61,035, excluding VAT, unchanged from 2013/14.</p> <p>Our work on grant claim certification is still in progress. The indicative fee for grant claim certification work included in our audit plan is £21,600, excluding VAT.</p> <p>Further detail is included within Appendix A.</p>



# Appendix A: Reports issued and fees

We confirm below the fee charged for the audit. There were no fees for the provision of other services.

## Fees for audit services

	Per Audit Plan £	Actual £
Council audit	61,035	61,035
Housing benefit grant certification fee*	21,600	TBC
<b>Total audit fees</b>	<b>82,635</b>	<b>TBC</b>

## Fees for other services

Service	Fees £
<b>Audit related services</b>	None
<b>Non-audit related services</b>	None

\*Our work on the Council's 2014/15 housing benefit claim is still in progress.

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## Reports issued

Report	Date issued
Audit Plan	March 2015
Audit Findings Report	September 2015
Annual Audit Letter	October 2015
Certification Report	January 2016 (planned)



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Matters for Information

#### 1 GRANT THORNTON – AUDIT COMMITTEE UPDATE FOR TONBRIDGE AND MALLING BOROUGH COUNCIL

This report provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

#### 1.1 Committee Update

1.1.1 Attached at **[Annex 1]** is a report from Grant Thornton giving information on the following areas:

- Planned work for 2015/16.
- Reforging local government: Summary findings of financial health checks and governance reviews.
- Turning up the volume: The Business Location Index.
- Making devolution work: A practical guide for local leaders.
- Growing healthy communities: The Health and wellbeing index.
- Knowing the Ropes – Audit Committee Effectiveness Review.
- Supporting members in governance.
- Plans for local government to gain new powers and retain local taxes.
- Councils must deliver local plans for new homes by 2017.
- Improving efficiency of council tax collection.
- Code of Audit Practice.

**1.2 Legal Implications**

1.2.1 None.

**1.3 Financial and Value for Money Considerations**

1.3.1 As set out in the paper.

**1.4 Risk Assessment**

1.4.1 None.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton  
Director of Finance and Transformation

# Audit Committee Update

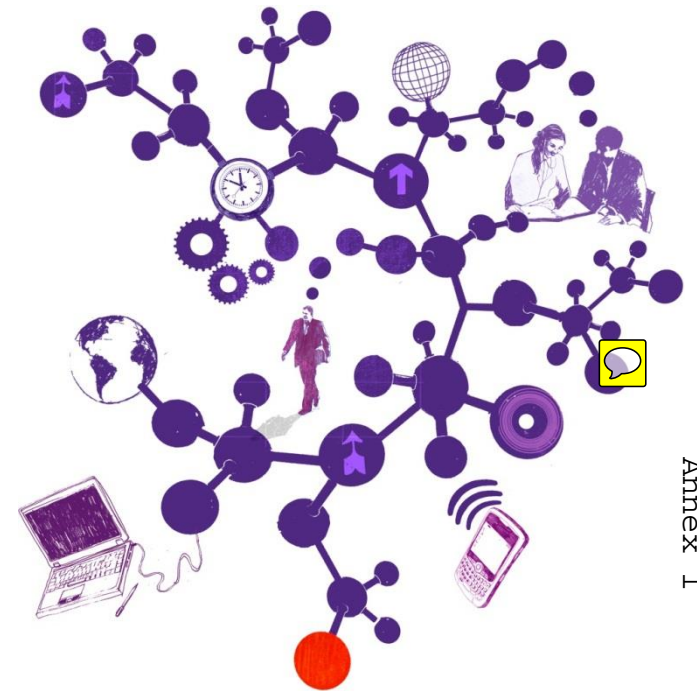
**Year ended 31 March 2016**

January 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Council.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector at [www.grant-thornton.co.uk/en/Services/Public-Sector/](http://www.grant-thornton.co.uk/en/Services/Public-Sector/) and where you can also download copies of our publications.

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

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# Planned work for 2015/16

Work	Planned date
<p><b>Interim Accounts audit</b> Our interim work will include:</p> <ul style="list-style-type: none"> <li>• work to understand how the Council's functions are delivered, the control environment and the framework of controls for financial systems</li> <li>• walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement</li> <li>• early substantive testing</li> <li>• early work on any emerging accounting issues.</li> </ul>	January – March 2016
<p><b>Accounts Audit Plan</b> Under auditing standards we are required to issue a detailed accounts audit plan setting out our proposed approach to the audit of the 2015-16 financial statements.</p>	March 2016
<p><b>Accounts audit</b> Work to complete our audit of the 2015-16 financial statements.</p>	July 2016
<p><b>Value for Money (VfM) conclusion</b> Work to reach a conclusion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>	February – July 2016

# Reforging local government: Summary findings of financial health checks and governance reviews

## Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

The report can be downloaded from our website: <http://bit.ly/GT-RLG>

Hard copies of our report are also available from your Engagement Lead and Audit Manager.

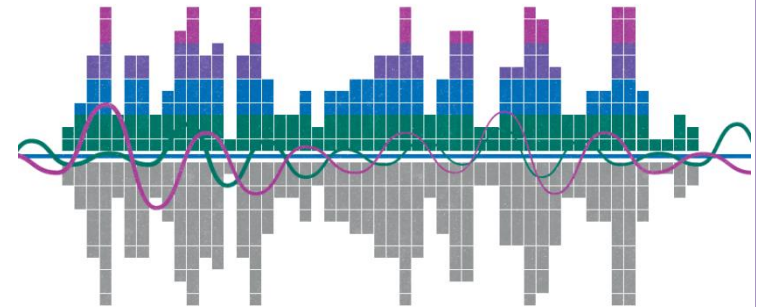


# Turning up the volume: The Business Location Index

## Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.



Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager

# Making devolution work: A practical guide for local leaders

## Grant Thornton market insight

Our latest report on English devolution is intended as a practical guide for areas and partnerships making a case for devolved powers or budgets.

The recent round of devolution proposals has generated a huge amount of interest and discussion and much progress has been made in a short period of time. However, it is very unlikely that all proposals will be accepted and we believe that this is the start of an iterative process extending across the current Parliament and potentially beyond.

With research partner Localis we have spent recent months speaking to senior figures across local and central government to get under the bonnet of devolution negotiations and understand best practice from both local and national perspectives. We have also directly supported the development of devolution proposals. In our view there are some clear lessons to learn about how local leaders can pitch successfully in the future.

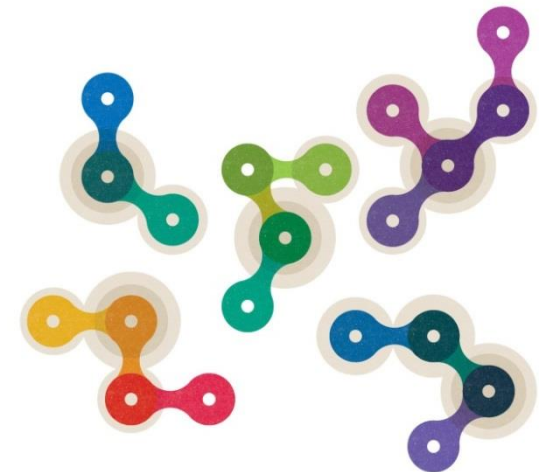
In particular, our report seeks to help local leaders think through the fundamental questions involved:

- what can we do differently and better?
- what precise powers are needed and what economic geography will be most effective?
- what governance do we need to give confidence to central government

The report 'Making devolution work: A practical guide for local leaders' can be downloaded from our website:

<http://www.grantthornton.co.uk/en/insights/making-devolution-work/>

Hard copies of our report are available from your Engagement Lead and Audit Manager



# Growing healthy communities: The Health and wellbeing index

## Grant Thornton market insight

Our Place Analytics team reveals how collaboration between local authority stakeholders can help address health quality determinants (social, economic and environmental) and result in improved health outcomes (quality of lifestyle and health conditions).

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Our report, Growing healthy communities: Health and Wellbeing Index, can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/growing-healthy-communities-health-and-wellbeing-index.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager





# Knowing the Ropes – Audit Committee Effectiveness Review

## Grant Thornton

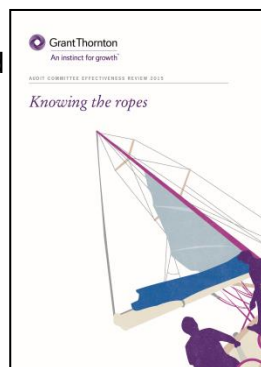
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



# Supporting members in governance

## Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager



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# George Osborne sets out plans for local government to gain new powers and retain local taxes

## Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.



# Councils must deliver local plans for new homes by 2017

## Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

# Improving efficiency of council tax collection

## Local government issues

DCLG have published "Improving Efficiency for Council Tax Collection", calling for consultation on the proposals to facilitate improvements in the collection and enforcement processes in business rates and council tax. The consultation is aimed specifically at local authorities, as well as other government departments, businesses and any other interested parties. The consultation document states that council tax collection rates in 2014-15 are generally high (at 97 per cent), however the government wishes to explore further tools for use by local authorities and therefore seeks consultation from local authorities on DCLG's proposals. The consultation closes on 18 November.

The Government proposes to extend the data-sharing gateway which currently exists between HMRC and local authorities. Where a liability order has been obtained, the council taxpayer will have 14 days to voluntarily share employment information with the council to enable the council to make an attachment to earnings. If this does not happen, the Government proposes to allow HMRC to share employment information with councils. This would help to avoid further court action, would provide quicker access to reliable information, and would not impose any additional costs on the debtor. The principle of this data-sharing is already well-established for council taxpayers covered by the Local Council Tax Support scheme, and it would make the powers applying to all council tax debtors consistent. Based on the results of the Manchester/HMRC pilot, Manchester estimate that £2.5m of debt could potentially be recouped in their area alone.

# Code of Audit Practice

## National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO has supplemented the new Code with detailed auditor guidance in specific areas. The audit guidance on the auditor's work on value for money arrangements was published on 9 November 2015. The guidance includes the following.

- The legal and professional framework
- Definitions of what constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Guidance Note AGN03 is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf>



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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

25 January 2016

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

#### Part 1- Public

#### Matters for Information

#### 1 GRANT THORNTON PUBLICATION – REFORGING LOCAL GOVERNMENT

Grant Thornton in December 2015 published its report entitled 'Reforging local government'.

#### 1.1 Introduction

1.1.1 The publication, 'Reforging local government', details the findings from the fifth year of financial health and governance reviews carried out by Grant Thornton.

1.1.2 Based on this latest review of financial resilience the report highlights the recent Autumn Statement presents a serious challenge to many councils that have already become lean.

1.1.3 The report suggests that:

- The majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services.
- Most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk.
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities.
- Local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos.
- Elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk.

- Councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

1.1.4 The full report can be found at the following link:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/reforging-local-government-finance-2015-final.pdf>

1.1.5 The Council is keenly aware of the significant financial challenge that lies ahead as reductions in funding from central government continue. We believe, however, that our Medium Term Financial Strategy is resilient and the financial pressures likely to confront us can be addressed in a measured and controlled way, but with ever increasing pressure this is becoming progressively more difficult.

1.1.6 In recognition of the scale of the challenge, alongside the MTFs is to sit a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the significant financial challenge faced by the Council and, in so doing, recognise there is no one simple solution and as a result we will need to adopt a number of ways to deliver the savings within an agreed timetable.

1.1.7 Members' attention is also drawn to the Annual Audit Letter for the year ended 31 March 2015 to be found elsewhere on the agenda as one or more of the key messages are of relevance here.

## **1.2 Legal Implications**

1.2.1 None.

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

1.3.1 As set out in the report published by Grant Thornton.

## **1.4 Risk Assessment**

1.4.1 As set out in the report published by Grant Thornton.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Sharon Shelton  
Director of Finance and Transformation

# Agenda Item 13

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 14

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 15

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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