

# TONBRIDGE & MALLING BOROUGH COUNCIL



## EXECUTIVE SERVICES

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### Chief Executive

Julie Beilby BSc (Hons) MBA

Gibson Building  
Gibson Drive  
Kings Hill, West Malling  
Kent ME19 4LZ  
West Malling (01732) 844522

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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)

6 June 2014

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, 16th June, 2014 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

## A G E N D A

### PART 1 - PUBLIC

1. Apologies for absence
2. Declarations of interest
3. Minutes

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To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 14 April 2014

**Matters for Recommendation to the Cabinet**

- |    |  |         |
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| 4. | Risk Management Strategy                                 | 11 - 18 |
| 5. | Local Code of Corporate Governance                       | 19 - 28 |
| 6. | Treasury Management Update and Annual Report for 2014/15 | 29 - 52 |

**Decisions to be taken under Delegated Powers**

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| 7. | Whistleblowing Charter (Confidential Reporting Code) | 53 - 62 |
| 8. | Statement of Accounts 2013/14                        | 63 - 76 |
|    | Statement of Accounts – separate supplement          |         |
| 9. | Review of Effectiveness of Internal Audit 2013/14    | 77 - 82 |

**Matters submitted for Information**

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| 10. | Annual Internal Audit Report 2013/14                           | 83 - 114  |
| 11. | Audit Commission Work Programme and Scales of Fees for 2014/15 | 115 - 126 |
| 12. | Audit Fee Letter 2014/15                                       | 127 - 132 |
| 13. | Urgent Items   |           |

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

**Matters for consideration in Private**

- |     |                               |  |
|-----|-------------------------------|--|
| 14. | Exclusion of Press and Public |  |
|-----|-------------------------------|--|

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**

- |     |              |  |
|-----|--------------|--|
| 15. | Urgent Items |  |
|-----|--------------|--|

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

Cllr Mrs F A Kemp  
Cllr S M King  
Cllr Mrs A S Oakley

Cllr M Parry-Waller  
Cllr T J Robins

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## TONBRIDGE AND MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 14th April, 2014

**Present:** Cllr Ms V M C Branson (Chairman), Cllr T Edmondston-Low (Vice-Chairman), Cllr S M King and Cllr M Parry-Waller

Grant Thornton, External Auditors: Mr G Short (Audit Team Leader)

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

Apologies for absence were received from Councillors Mrs A S Oakley and T J Robins

### PART 1 - PUBLIC

#### **AU 14/13 DECLARATIONS OF INTEREST**

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

#### **AU 14/14 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 27 January 2014 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE COUNCIL

#### **AU 14/15 AUDIT COMMITTEE ANNUAL REPORT**

The report of the Chairman of the Audit Committee was produced to inform the Council of the means by which the Committee had provided independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

The report summarised the work carried out by the Committee during 2013/14 and concluded that the required assurance set out in the CIPFA Audit Committee Guidance had been provided to those charged with governance. A minor amendment was made to paragraph 1.13.3 of the report, deleting the words "to support".

**RECOMMENDED:** That the Annual Report be presented to the Council as independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control



environment and the integrity of the financial reporting and annual governance processes.

**\* Referred to Council**

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

**AU 14/16 ANNUAL GOVERNANCE STATEMENT 2013/14 AND ACCOUNTING POLICIES USED IN PREPARATION OF THE FINANCIAL STATEMENTS**

The Director of Finance and Transformation presented the Annual Governance Statement for the year ended 31 March 2014 which was required to be certified by both the Leader of the Council and the Chief Executive and to accompany the Council's Statement of Accounts 2013/14.

The Annual Governance Statement had been prepared by way of a self-assessment questionnaire and supporting evidence including the Chief Internal Auditor's interim report (Minute AU 14/21 refers). Consideration was also given to the Accounting Policies to be used in preparation of the Financial Statements, the changes from those used for the 2012/13 Statements being highlighted in the report.

The Committee discussed ways of clarifying the Annual Governance Statement and suggested that initially the purpose set out in the report should be reproduced in the introduction to the Statement.

**RESOLVED:** That

- (1) the Annual Governance Statement 2013/14, as set out at Annex 1 to the report, be endorsed subject to inclusion of the purpose identified in the second sentence of paragraph 1.1.2 of the report as the introduction to the Statement;
- (2) the Annual Governance Statement, as amended, be recommended for adoption to the General Purposes Committee to accompany the Statement of Accounts 2013/14; and
- (3) the Accounting Policies to be used in the preparation of the Financial Statements, as set out at Annex 3 to the report, be approved.

**AU 14/17 INTERNAL AUDIT PLAN 2014/15**

The Chief Internal Auditor presented the draft Internal Audit Plan for 2014/15. Consideration was given to coverage of the plan which was based on a risk assessment of the Council's Internal Audit needs and contained both assurance and consultancy work. It was noted that the

plan reflected the Council's focus on identifying financial savings and opportunities for generating income and efficiencies in services and was sufficiently flexible to allow for response to unforeseen investigations as they arose.

**RESOLVED:** That the Internal Audit Plan for 2014/15, as set out at Annex 1 to the report, be approved subject to rationalisation of the numbering of the audits.

#### **AU 14/18 TREASURY MANAGEMENT UPDATE**

The report of the Director of Finance and Transformation provided an update of treasury management activity undertaken during the 2013/14 financial year within the context of the national economy. Members were invited to endorse the action taken by officers and to note the treasury management position as at 28 February 2014.

Attention was drawn to the revised estimate of investment income as a result of the Funding for Lending initiative introduced by the Bank of England. Members were pleased to note the recovery of just over 95% of the original investment with Landsbanki.

**RESOLVED:** That

- (1) the action taken by officers in respect of treasury management activity be endorsed; and
- (2) the treasury management position as at 28 February 2014 be noted.

#### **AU 14/19 COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING**

The report of the Chairman of the Audit Committee explained how those charged with governance were required to assure the External Auditor that the Council had complied with the requirements of the International Standards on Auditing. Members considered the responses which had been prepared with input from the Chairmen of the Audit and General Purposes Committees, both bodies having responsibility for corporate governance. It was noted that the Management Team was also required to provide assurance in this regard, being the subject of a separate report to the Committee.

**RESOLVED:** That

- (1) the responses set out in Annex 1 to the report be endorsed and the assurance provided be agreed; and

- (2) the General Purposes Committee be requested to ratify the assurance given by its Chairman at its next meeting on 23 June 2014.

### **MATTERS SUBMITTED FOR INFORMATION**

#### **AU 14/20 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING**

The Committee received the report of the Management Team confirming compliance with the International Standards on Auditing. Reference was made to the similar assurance to be provided by the Audit and General Purposes Committees for which the Management Team provided supporting evidence (Minute AU 14/19 refers).

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

#### **AU 14/21 CHIEF INTERNAL AUDITOR'S INTERIM REPORT**

The Committee received the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's control environment as required by the Public Sector Internal Audit Standards. This was part of the evidence used to inform the Annual Governance Statement and it was noted that a full annual report would be presented at the June meeting of the Committee. Members were advised that based upon the work carried out and supporting evidence, in the opinion of the Chief Internal Auditor the Council had maintained an adequate and effective internal control environment during 2013/14.

The Committee received a presentation on the feedback from the Audit Commission arising from the fraud survey.

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

#### **AU 14/22 REVIEW OF OPERATIONAL RISK REGISTERS**

The report of the Director of Finance and Transformation updated the Committee on the results of a review of the Operational Risk Registers carried out by Services in December 2013. It was noted that the levels of risk remained reasonably static with a minor fluctuation in the lower and medium level risks. Details of those risks scored as high were set out in the Annex to the report and Members were advised that they would be considered as part of the Internal Audit Plan to ensure that action had been taken to minimise the risk to an acceptable level.

Members commented on the format of the risk registers and considered that it would be helpful for actual risks to be recorded. It was also noted that a higher level strategic risk register and corporate business continuity plan existed above the operational risk registers.



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

**AU 14/23 UPDATE ON THE WORK OF INTERNAL AUDIT DURING 2013/14**

The report of the Chief Internal Auditor provided an update on the progress of the Internal Audit team against the agreed 2013/14 Annual Internal Audit Plan. An indication was given of the current status of all audits on the 2013/14 Plan including a summary of findings where finalised and an explanation of the deferral of two audits at the request of management.

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

**AU 14/24 GRANT THORNTON ITEMS FOR AUDIT COMMITTEE**

The report of the Director of Finance and Transformation referred to items from Grant Thornton, the Council's external auditors. These were introduced by Mr Graham Short (Audit Team Leader) and included the 2013/14 Audit Plan which set out the proposed approach to the audit of the Council's financial statements. The Committee also received Grant Thornton's report on progress in delivering their responsibilities as the Council's external auditors together with a summary of emerging national issues and developments that might be relevant to the Council. Mr Short answered a range of questions from Members.

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

**AU 14/25 GRANT THORNTON PUBLICATIONS**

The report of the Director of Finance and Transformation provided summaries of two of Grant Thornton's publications: 'Reaping the benefits: First impressions of the impact of welfare reform' and 'Working in tandem: Local Government Governance Review 2014'.

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

**AU 14/26 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 14/27 INSURANCE CLAIMS HISTORY 2013/14**

(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 claims submitted for the year ended 31 March 2014.

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

The meeting ended at 9.07 pm

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

#### Report of the Chief Executive and Director of Finance & Transformation

#### Part 1- Public

#### Matters for Recommendation to Cabinet

### 1 RISK MANAGEMENT STRATEGY

**This report asks Members to review the current Risk Management Strategy and to recommend it for endorsement by the Council.**

#### 1.1 Introduction

1.1.1 The Council has had a Risk Management Strategy in place for a number of years. The Council's Risk Management arrangements are designed to ensure a prudent approach is taken, with risks reduced to an acceptable level, thereby safeguarding the Council's assets, employees and customers.

1.1.2 The Risk Management Strategy sets out the Council's risk management objectives and details the roles and responsibilities of officers, Members and the Council's partners in ensuring risks are effectively identified, evaluated and controlled in a cost effective manner.

#### 1.2 2014 Review of the Risk Management Strategy

1.2.1 As part of arrangements in place to ensure risk management maintains a high profile within the Council, the Strategy is subject to annual review and endorsement through the Audit Committee, Cabinet and Council.

1.2.2 The Risk Management Strategy has been reviewed and no amendment is considered to be required. The Strategy is presented at **[Annex 1]** of this report.

#### 1.3 Legal Implications

1.3.1 There is a Health & Safety requirement for effective risk management to be in place and the strategy supports this requirement. There is also a requirement in the Accounts & Audit Regulations that accounting control systems must include measures to ensure that risk is appropriately managed.

## 1.4 Financial and Value for Money Considerations

- 1.4.1 Effective risk management arrangements make a positive contribution to ensuring value for money is provided in the delivery of services.

## 1.5 Risk Assessment

- 1.5.1 Sound risk management arrangements aid the Council in effective strategic decision-making. The Council's approach to risk should be reviewed on a regular basis to ensure it is up to date and operating effectively.

## 1.6 Equality Impact Assessment

- 1.6.1 See 'Screening for equality impacts' table at end of report

## 1.7 Recommendations

- 1.7.1 Members are requested to review the Risk Management Strategy, and subject to any amendment required, to recommend to Cabinet for adoption by Council.

Background papers:

contact: David Buckley

Nil

Julie Beilby  
Chief Executive

Sharon Shelton  
Director of Finance & Transformation

| Screening for equality impacts:   |        |  |
|---|--------|--|
| Question  | Answer | Explanation of impacts   |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | No     | The report sets out the Council's Risk Management Strategy which applies to all aspects of the Council's business. |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?   | No     |  |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?   |        | N/A  |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

# TONBRIDGE AND MALLING BOROUGH COUNCIL

## RISK MANAGEMENT STRATEGY STATEMENT

### 1. Introduction

The risk management strategy of Tonbridge and Malling Borough Council is to adopt best practices in the identification, evaluation, and cost-effective control of risks. This is intended to ensure that risks are reduced to an acceptable level or, where reasonable eliminated, thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community.

One of the Council's aims is to:

*"Maintain the Council's high standards of financial management and probity".*

The Council endeavours to pursue a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements i.e. Constitution, Procedural Rules etc. These arrangements will serve to ensure that the Council does not expose itself to risks above an acceptable level.

Risks relating specifically to Health & Safety matters will be covered within the Council Health & Safety Policy and supporting guidance notes issued by the Director of Health and Housing.

### 2. Objectives

The risk management objectives of the Council are to:

- embed risk management into the culture of the Council;
- monitor, manage and report on risk in accordance with best practice;
- be responsive to changing social, environmental and legislative requirements whilst effectively managing the related risks and opportunities;
- prevent injury, damage and loss and reduce the cost of risk;
- raise awareness of the need for risk management;
- actively promote 'sensible and responsible risk management' using practical steps to protect workers and the public from real risks that cause injury and death

These objectives will be achieved by:

- defining the roles and responsibilities, in relation to risk management, of Officers and Members within the organisation;
- maintaining a risk management framework that will ensure the review on a rolling basis of strategic, operational and project risks faced by the Council – this approach will:

- identify corporate, operational and project risks;
  - assess the identified risks for likelihood and impact;
  - record the corporate risk register, linking these risks to strategic business objectives and assigning ownership for each risk;
  - detail the management action/controls required to mitigate identified risks;
  - require the corporate risk register to be discussed with the Audit Committee prior to approval by Council;
  - require regular reporting to the Audit Committee on all areas of “red zone” risks and action taken to manage them;
  - require the reporting of risks to full Council where appropriate
  - require all Cabinet/Committee reports to include a section covering the key risk issues to be considered, together with any action required to mitigate identified risks
  - require a risk assessment to be completed for all significant new projects and initiatives
  - require the Treasury Management Policy to outline the arrangements for properly managing treasury management risks;
  - require risks in relation to significant partnerships to be identified and assurances to be obtained regarding the management of those risks;
  - require appropriate incident recording to facilitate the analysis of risk data and steps taken to prevent or mitigate similar incidents occurring;
  - require an annual review of risk management framework by the review of this strategy.
- providing relevant training on risk management to employees and Members of the authority;
  - actively participating in inter-authority internal audit and insurance groups thereby developing and sharing best practice in risk management;
  - encouraging officers participating in other professional discipline groups to secure the inclusion of risk management as an agenda topic;
  - disseminating to officers as appropriate published risk management information received from insurers and other related sources;

### **3. Roles and Responsibilities**

#### **a) Members**

The Risk Management Strategy will be reviewed at least annually. Council approval of the updated strategy will be witnessed by the signature of the Leader of the Council and countersigned by the Chief Executive. The Chairman of the Audit Committee will take a lead role in promoting the application of sound risk management practices across the Council.

All Members of the Council will receive a Risk Management Training session during a four-year term in office.

The Audit Committee will consider the Risk Management process as part of the assurance evidence in support of any Corporate Governance Statement.

The Audit Committee will provide independent assurance of the adequacy of the risk management framework and will monitor the effective development and operation of risk management in the Council.

#### **b) Management Team**

Management are responsible for the identification and management of risks.

Management Team will consider strategic risk and if necessary will formulate an action plan to address the risk. Strategic risk reviews will be undertaken where new situations arise or as considered necessary by the Management Team.

The business continuity plan will include strategic risks that will cascade down to operational risk registers.

Chief Officers will ensure that their managers carry out an annual review of operational risk for all their areas of responsibility. This review process will include the views of relevant staff within the activity. This will be supported by a half yearly review carried out by the manager with any risks entering the red zone being reported to the Chief Officer. The Chief Officer shall alert Management Team of any significant emerging risks as he deems necessary.

Chief Officers will take steps to ensure that their staff are fully aware of the Council's Risk Management Strategy and how to raise concerns relating to risk.

#### **c) Section Managers**

Section Managers in conjunction with members of their teams (as appropriate) and other parties / partners (where applicable) will lead reviews of the operational risks relating to their sections, and will reflect the outcomes of these reviews in their own Operational Risk Registers. These operational risk reviews will be undertaken annually. In addition a half-yearly review will take place to identify any significant change in scored risk and any new risks that have arisen.

Where risks are identified as being in the red zone of the risk matrix they will be reported to Management Team.

Where a manager identifies that a risk is moving significantly towards the red zone he should monitor the situation and alert his Chief Officer to the fact.

#### **d) Partners**

Where the Council enters into a partnership arrangement, the officer responsible for monitoring the partnership must ensure that the partner has an adequate risk management strategy and sufficient insurance cover to protect the interests of the Council.

#### **e) Employees Generally**

The concept of risk management will be conveyed to all employees.

“Netconsent” will be used to raise staff awareness of the Strategy annually.

A copy of this document will be held on the Council’s Intranet site. Employees will be expected in the first instance, to refer risk management concerns to their line managers. Should such concerns remain un-addressed, employees can refer their concerns elsewhere as prescribed in the Council’s Confidential Reporting Code.

Staff identified as being appropriate by their Manager will be asked to review the content and scoring of the Operational Risk registers for their section. This review should assist the Manager in completing the Risk Register.

All staff also have a duty to consider safe working practices and owe a duty of care to the safety of others. Any concerns relating to Health & Safety matters should be raised with line management, who, as part of their response, should seek guidance as necessary from the Director of Health and Housing.

#### **f) Director of Planning, Housing and Environmental Health**

The Director of Planning, Housing and Environmental Health shall be responsible for:

- monitoring and reviewing arrangements for the proper management of work place health and safety;
- preparing and updating the Council’s Health & Safety Policy;
- overseeing the issue of Health & Safety Guidance to assist service managers and staff comply with the Council’s Health and Safety Policy; and
- assessing compliance with Health & Safety legislation.

In the execution of these responsibilities the Director of Planning, Housing and Environmental Health will:

- consult with service managers in preparing an annual health and safety work programme which will include undertaking audits of work place activities and related risk assessments;
- assist service managers identify emerging health and safety risks and measures to address them including appropriate training;
- assist services managers prepare and review health and safety risk assessments; and
- submit an annual report on health and safety management in the work place.

#### **g) Financial Services**

The Director of Finance & Transformation in consultation with the Exchequer Services Manager will:

- regularly review and advise upon the Council’s insurance requirements and arrangements
- advise Officers and Members on insurance covers available and / or in place



- regularly advise Members of the Audit Committee on claims history and preventative action arising
- arrange insurance cover as necessary
- advise Officers on claims procedures, and process claims arising
- assist in the development and provision of claims data to aid future risk control
- disseminate published risk management information received

The Director of Finance & Transformation will report to Management Team on any areas of significant financial risk identified by the budget monitoring process

Internal Audit Section will take account of Risk Management provision when formulating the annual audit plan. Although the provision of adequate and effective risk management is Management responsibility each Internal Audit review will include a provision to ascertain if an up to date and adequate risk register is in place.

Signed

Leader of the Council

Signed

Chief Executive

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

#### Joint Report of the Chief Executive and the Director of Finance & Transformation

#### Part 1- Public

#### Matters for Recommendation to Cabinet

### 1 LOCAL CODE OF CORPORATE GOVERNANCE

**This report requests that Members of the Audit Committee carry out a review of the above Code and recommend through Cabinet adoption by the Council.**

#### 1.1 Introduction

1.1.1 Tonbridge & Malling Borough Council is committed to adopting the principles of good governance and demonstrates this publicly through the adoption and continued maintenance of a local Code of Corporate Governance, as recommended within the CIPFA/SOLACE (Chartered Institute of Public Finance & Accounting and the Society of Local Authority Chief Executives) Framework for Good Governance in Local Government, 2007.

1.1.2 In 2012, CIPFA/SOLACE published an addendum to the 2007 framework along with a Guidance Note for English Local Authorities. In order to meet the latest guidance, the Council's Code of Corporate Governance was reviewed and updated in 2013.

1.1.3 The CIPFA/SOLACE Framework for Good Governance in Local Government defines governance as 'the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities'.

1.1.4 Each year, the Annual Governance Review process, culminating in the Annual Governance Statement, is used to confirm that the Council's arrangements to comply with the Local Code of Corporate Governance are in place and effective.

#### 1.2 2014 Review of the Local Code of Corporate Governance

1.2.1 A review has been carried out and the Local Code of Corporate Governance adopted in 2013 is considered to remain appropriate, and requires only one change; the addition of a reference to the Council's Strategic Risk Register at 4.3. A copy of the Code is attached at **[Annex 1]**.

### 1.3 Legal Implications

- 1.3.1 Whilst there is no legal requirement for Council's to develop a Local Code of Corporate Governance, such a Code provides a public document that demonstrates how the Council ensures it operates in a proper way and in accordance with the law.

### 1.4 Financial and Value for Money Considerations

- 1.4.1 There are no financial and value for money considerations arising from the Code.

### 1.5 Risk Assessment

- 1.5.1 The Code of Corporate Governance meets the principles of the CIPFA/SOLACE Framework for Good Governance in Local Government and has been prepared with due consideration to good governance practice, as set out in the Framework.

### 1.6 Equality Impact Assessment

- 1.6.1 No equality impact issues were identified.

### 1.7 Recommendations

- 1.7.1 Members are requested to review the draft Local Code of Corporate Governance and to **RECOMMEND** to Cabinet that the Code be considered and recommended to Council for adoption.

Background papers:

contact: David Buckley

CIPFA/SOLACE - "Delivering Good Governance in Local Government".

Julie Beilby  
Chief Executive

Sharon Shelton  
Director of Finance & Transformation

| Screening for equality impacts:   |        |   |
|---|--------|---|
| Question  | Answer | Explanation of impacts  |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | No     | The Code is designed to ensure that all stakeholders are aware of the culture of the organisation and the standards expected from them. |

| <b>Screening for equality impacts:</b>  |               |  |
|---|---------------|--|
| <b>Question</b>   | <b>Answer</b> | <b>Explanation of impacts</b>  |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? | No            | The Code is an indication of expectation of standards from all groups. |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?                     |               | Not applicable   |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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**Tonbridge & Malling Borough Council  
CODE OF CORPORATE GOVERNANCE**

**INTRODUCTION**

- 1.1 In 2001 the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published *Corporate Governance in Local Government – A Keystone for Community Governance: Framework*. The Framework outlined the need for local authorities to review their governance arrangements against a number of key principles and report on their effectiveness in practice.
- 1.2 Six core principles of good governance were advocated by the Independent Commission on Good Governance in Public Services in *The Good Governance Standard for Public Services (2004)* with support from the Office for Public Management and CIPFA. In response to subsequent changes in local government, CIPFA and SOLACE published an updated framework for good governance in local government in 2007. The framework defines governance as, 'the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities'.
- 1.3 The Independent Commission's six core principles of good governance outlined in the CIPFA-SOLACE Framework show that good governance means:
- (i) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles
  - (iii) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - (iv) Taking informed, transparent decisions which are subject to effective scrutiny and managing risk
  - (v) Developing the capacity and capability of Members and officers to be effective
  - (vi) Engaging with local people and other stakeholders to ensure robust public accountability

| CODE OF CORPORATE GOVERNANCE  | SUPPORTING EVIDENCE  |
|---|--|
| <b>1. Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.</b>                                 |  |
| 1.1. <i>Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users.</i>                      | <p>There is a clear statement of the organisation's purpose in:</p> <ul style="list-style-type: none"> <li>• Tonbridge &amp; Malling Borough Council – Corporate Performance Plan 2012/15</li> </ul> <p>This document sets out the key priorities for the authority and how the Council will work with a range of partners and the local communities towards achieving the objectives.</p>   |
| 1.2. <i>Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning.</i>   | <p>The Corporate Performance Plan also sets out how the Key Priorities will be delivered and identifies improvement plans on how these can be delivered efficiently and effectively. This will involve working with partners and contractors to achieve this. Regular update reports are given to Management and Members outlining progress towards achieving these priorities.</p>  |
| 1.3. <i>Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.</i>  | <p>The council works towards improving value for money through:</p> <ul style="list-style-type: none"> <li>• Exploration of innovative ways of working including potential for joint-working and shared services.</li> <li>• Robust budgeting and Financial monitoring arrangements including detailed reviews of budgets and potential savings opportunities.</li> <li>• The work of Internal Audit</li> <li>• The work of External Audit</li> <li>• Publication of annual budget and accounts information</li> </ul> |
| CODE OF CORPORATE GOVERNANCE  | SUPPORTING EVIDENCE  |
| <b>2. Good governance means Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>  |  |
| 2.1. <i>Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard.</i> | <p>The council has a protocol for relations between Members and Officers. The council's Constitution sets out clearly any delegation of responsibility from Council and the decision making powers of:</p> <ul style="list-style-type: none"> <li>• The Council,</li> <li>• The Cabinet (including the Executive Leader and delegated decision-making to the Cabinet Portfolio Holders),</li> <li>• Regulatory Board, the Licensing Committee and other council committees.</li> </ul>                                 |
| 2.2. <i>Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles</i>   | <p>The council's Constitution clearly sets out the process for holding the executive to account through the debate of items at committees and, specifically, the role of the Overview Scrutiny Committee.</p>  |



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| <i>and responsibilities of the scrutiny function.</i>   |   |
| <i>2.3. Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other</i>                                | <p>The council is accountable to the citizens of Tonbridge &amp; Malling in delivering its duties and responsibilities.</p> <p>The council manages relationships with partners and consults with the public through a number of mechanisms:</p> <ul style="list-style-type: none"> <li>• Transparency agenda</li> <li>• Regular reporting to Members</li> <li>• Partnership arrangements supported by protocol agreements</li> <li>• Council Constitution</li> </ul>  |
| <b>3. Good governance means promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.</b> |   |
| <i>3.1. Ensuring authority Members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</i>                 | <p>The council has a code of conduct for Members. In addition the council has:</p> <ul style="list-style-type: none"> <li>• An Equalities Policy</li> <li>• A Code of Conduct for staff</li> <li>• A Declaration of Interest Register for Members and for staff</li> <li>• A Register of Gifts and Hospitality offered to Members and staff</li> <li>• Financial Procedure Rules</li> <li>• Contract Procedure Rules</li> <li>• A publicised complaints procedure</li> <li>• A fraud-aware culture</li> </ul>   |
| <b>CODE OF CORPORATE GOVERNANCE</b>   | <b>SUPPORTING EVIDENCE</b>  |
| <i>3.2. Ensuring that organisational values are put into practice and are effective.</i>  | <p>The council has robust arrangements in place to ensure that it does the right things, for the right people in a timely, inclusive, open, honest and accountable manner. These are monitored and publicised through:</p> <ul style="list-style-type: none"> <li>• The council's Performance Management Framework and performance reporting arrangements,</li> <li>• Procedures for recruitment and training,</li> <li>• Decision making practices,</li> <li>• Data transparency arrangements, such as publication of decisions and committee meeting minutes,</li> <li>• Partnership governance arrangements</li> </ul> |
| <b>4. Good governance means taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>   |   |
| <i>4.1. Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</i>                                     | <p>The council's Constitution sets out the clearly the decision-making powers of:</p> <ul style="list-style-type: none"> <li>• The Council</li> <li>• The Cabinet (including the Executive Leader and delegated decision-making to the Cabinet Portfolio Holders),</li> <li>• Other council committees.</li> </ul> <p>Feedback from the Overview Scrutiny Committee and</p>   |

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|   | the council's Cabinet Committees is taken into account in decision-making.  |
| 4.2. <i>Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.</i> | The council has a Data Quality Policy which sets the rules and standards for ensuring that high quality information is consistently achieved. The Performance Management Framework underpins this policy. The council's Financial Procedure Rules support the provision of high quality financial advice. The Council also acts in consultation with stakeholders.  |
| 4.3. <i>Ensuring that an effective risk management system is in place.</i>  | The council has arrangements in place to effectively monitor and manage risks to its business through the: <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• <b>Strategic Risk Register</b></li> <li>• Corporate Risk Register</li> <li>• Service Risk Registers</li> <li>• Audit Committee role in scrutinising corporate risk</li> <li>• Consideration of risk in all Committee reports</li> <li>• Annual Governance Statement</li> </ul>  |
| 4.4. <i>Using their legal powers to the full benefit of the citizens and communities in their area</i>  | The council actively recognises the requirements and responsibilities placed on it by public law and will act to observe all specific legal requirements placed upon it when taking decisions.<br><br>The council also strives to utilise its statutory powers to work in the public interest and to the full benefit of its citizens, particularly in relation to regulatory activity.<br><br>All committee reports now include a section to ensure any legal implications are fully analysed when making decisions. |
| <b>CODE OF CORPORATE GOVERNANCE</b>   | <b>SUPPORTING EVIDENCE</b>  |
| <b>5. Good governance means developing the capacity and capability of Members and officers to be effective</b>  |   |
| 5.1. <i>Making sure that Members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</i>           | The council has a training programme for Members and holds regular training sessions for Members on a variety of topics: <ul style="list-style-type: none"> <li>• Induction training for all new members</li> <li>• Service-specific training e.g. Community Safety</li> <li>• Committee-specific Training e.g. Audit Committee</li> </ul> The council has an extensive training programme for council officers including mandatory and voluntary training.   |
| 5.2. <i>Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group</i>          | The council examines the capability of its people with governance responsibilities through appraisals and the Performance Management Framework and identifies any training gaps – the relevant training programmes are updated accordingly. The appraisal system for Managers is specifically competency focused.   |
| 5.3. <i>Encouraging new talent for membership of the authority so that best use can be made in individuals' skills and resources in</i>                   | The political group leaders take a lead in this area and use the Member training programme to support this ambition as required.  |

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| <i>balancing continuity and renewal.</i>   |   |
| <b>6. Good governance means engaging with local people and other stakeholders to ensure robust public accountability</b>   |   |
| 6.1. <i>Exercising leadership through a robust scrutiny function which effectively engages local people &amp; all local institutional stakeholders including partnerships, &amp; develops constructive &amp; accountability relationships.</i> | <p>The council is clear that it is ultimately accountable to the citizens of Tonbridge &amp; Malling. The council's Corporate Performance Plan 2012/15 outlines the means by which local stakeholders will be engaged and how constructive, challenging relationships will be built.</p> <p>The council has put in place Committees with cross-party representation to ensure effective and robust discussion of issues.</p> <p>The council also has an Overview and Scrutiny Committee to scrutinise decisions made by Cabinet.</p>  |
| 6.2. <i>Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.</i>                | <p>The council has taken action to develop and support effective engagement opportunities with all groups of the local community:-</p> <ul style="list-style-type: none"> <li>• The council promotes the TM Youth Forum that represents the views of young people living in Tonbridge and Malling</li> <li>• The council supports the Tonbridge &amp; Malling Seniors' Forum (TAMS) which promotes and the needs of the older resident.</li> </ul>  |
| <b>CODE OF CORPORATE GOVERNANCE</b>  | <b>SUPPORTING EVIDENCE</b>  |
| 6.2 <i>Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.</i>                 | <p>The council being in a position to say we have a good understanding of who lives, works and plays in the borough and have mechanisms to listen to and respond to their needs, aspirations and concerns:-</p> <ul style="list-style-type: none"> <li>• The council engages with other key stakeholders through a number of partnerships that the council has embarked upon, which are detailed in the council's Partnership Register.</li> <li>• The council actively uses complaints received to learn and improve services, whether through the internal complaints system or via the Ombudsman.</li> </ul> |
| 6.3. <i>Making best use of human resources by taking an active and planned approach to meet responsibility to staff.</i>   | <p>The council has Investors' in People accreditation for the whole council and actively engages with its staff through:</p> <ul style="list-style-type: none"> <li>• Staff talks</li> <li>• Team meetings</li> <li>• Regular performance management meetings</li> <li>• The Joint Staff Consultative Committee</li> </ul>  |

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

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

#### Part 1- Public

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

#### **1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2014/15**

**This report provides details of treasury management activity undertaken during April of the current financial year within the context of the national economy. The treasury management outturn position for 2013/14 is due to be reported to the June meeting of Cabinet and is also included in this report. Members are invited to endorse the action taken in respect of treasury management activity for April 2014 and note the outturn position for 2013/14.**

#### **1.1 Introduction**

1.1.1 The Chartered Institute for Public Finance and Accountancy (CIPFA) issued a revised Code of Practice for Treasury Management in November 2009. The revised Code was adopted by the Council on 18 February 2010 and suggests that Members should be informed of treasury management activities at least twice a year, but preferably quarterly. This report, therefore, ensures this Council is embracing best practice in accordance with CIPFA's revised Code of Practice and subsequent updates.

#### **1.2 Economic Background**

1.2.1 Thus far in 2014/15:

- Economic recovery in the UK picked up momentum in the early months of 2014 with output growing by 0.8% in the first quarter of 2014 and by 3.1% for the twelve months to March 2014. Whilst the economy remains smaller than its 2008 pre-recession peak, output in the UK is expected to grow more strongly than any other Group of Seven (G7) economy this year.
- Inflation has exceeded the target (2%) set for the Bank of England (BoE) in every month for the four years December 2009 to December 2013. Since the turn of the year, the Consumer Price Index (CPI) has fallen to 1.6% for

the 12 months to March 2014, easing the pressure on living standards. CPI is expected to remain at or below target over the next two years.

- The combination of rapidly rising house prices in London and the Southeast together with an improving outlook for the economy has led to recent media speculation of a Bank Rate rise as early as spring 2015. However, the quarterly inflation report published by the BoE in May provided a reminder that the economy “has only just begun to head back to normal”. The expectation of low inflation, spare productive capacity and a desire to protect economic growth provides no impetus for the BoE to tighten monetary policy in the near term. Although distortions in the housing market pose a threat to the sustainability of the UK’s economic recovery measures other than interest rates have proven more effective in controlling prices in the past.
- In the Eurozone, the UK’s main trading partner, economic output for the bloc as a whole grew by only 0.1% in the first quarter of 2014. Recent activity surveys in the Eurozone continue to paint a picture of divergence between the pace of recovery in the major economies. While German data points to continued growth French figures dipped back into “contraction” territory. Weak growth couple with continuing concerns over deflation in the Eurozone has raised the expectation that the European Central Bank will need to intervene with further policy measures over the coming months.
- In the US the Federal Reserve has continued with its policy of tapering asset purchases with an expectation that this process will be completed this autumn. What happens after this will have a significant impact on markets in the second half of 2014. Whether the current accommodative policy remains or the economic situation supports further tightening of policy is open to question. Comment from the Chair, Janet Yellen, suggests the central bank will keep its “extraordinary” support for the economy for “some time to come”.

### 1.3 Interest Rate Forecast

1.3.1 The Bank Rate has remained at an emergency level of 0.5% for the last 5 years. Capita’s latest forecast, updated in May 2014, anticipates the Bank Rate will remain at this level for a further 18 months before rising in the final quarter of 2015.

| Rate         | Now  | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 | Sep-16 | Dec-16 |
|--------------|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|              | %    | %      | %      | %      | %      | %      | %      | %      | %      | %      | %      | %      |
| Bank Rate    | 0.50 | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.50   | 0.75   | 0.75   | 1.00   | 1.25   | 1.50   |
| 3 mth LIBID  | 0.50 | 0.50   | 0.50   | 0.50   | 0.50   | 0.60   | 0.70   | 0.80   | 0.90   | 1.00   | 1.20   | 1.50   |
| 6 mth LIBID  | 0.58 | 0.60   | 0.60   | 0.60   | 0.60   | 0.70   | 0.80   | 1.00   | 1.20   | 1.30   | 1.50   | 1.70   |
| 12 mth LIBID | 0.80 | 0.80   | 0.80   | 0.80   | 0.90   | 1.10   | 1.20   | 1.40   | 1.60   | 1.70   | 1.90   | 2.10   |
| 25yr PWLB    | 4.16 | 4.30   | 4.40   | 4.50   | 4.60   | 4.70   | 4.80   | 4.80   | 4.90   | 4.90   | 5.00   | 5.00   |

## 1.4 2014/15 Treasury Management Performance

1.4.1 The Annual Investment Strategy for the 2014/15 financial year was approved by Council on 18 February 2014. The Strategy, outlines the Council's investment priorities as follows:

- Security of Capital,
- Liquidity.

1.4.2 In addition the Council will also aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In particular, for 2014/15 the Council will “avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile”. The Council has adopted Capita's recommended creditworthiness approach which incorporates the credit ratings from each of the three main rating agencies and includes sovereign credit ratings and a market view of risk using credit default swap (CDS) data.

1.4.3 A full list of investments held on 30 April 2014 and our internal lending list in operation on that date are shown in **[Annexes 1 and 2]** of this report.

1.4.4 As illustrated above, investment rates available in the market are at an historical low point. The average level of cash flow funds available for investment purposes to the end of April 2014 was £10.1m. These funds were available on a temporary basis and the amount mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Authority holds £13.4m of core cash balances for investment purposes which are currently managed by an external fund manager. These funds are for the most part available to invest for more than one year, albeit some funds will need to be recalled towards the end of the financial year to top-up our daily cash balances.

1.4.5 As at the end of April 2014 funds invested and interest earned is set out in the table below:

|                                      | <b>Funds invested at 30 April 2014<br/>£m</b> | <b>Average duration to maturity<br/>Yrs</b> | <b>Weighted average rate of return<br/>%</b> | <b>Interest earned to 30 April 2014<br/>£</b> | <b>Gross annualised return to 30 April 2014</b> | <b>7 day LIBID benchmark<br/>%</b> |
|--------------------------------------|---|---|--|---|---|------------------------------------|
| <b>In-house cash flow</b>            | 6.6   | 0.29  | 0.81   | 6,050   | 0.73  | 0.41                               |
| <b>Externally managed core funds</b> | 13.4  | 0.80  | 0.59   | 7,100   | 0.64  | 0.41                               |
| <b>Total</b>                         | 20.0  | 0.63  | 0.66   | 13,150  | 0.68  | 0.41                               |

1.4.6 Interest earned of £13,150 is broadly in line with budget expectations (£300 higher than expected for cash flow and £850 lower for core funds) and 27 basis points better than benchmark.

1.4.7 **In-house Managed Cash Flow.** 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. The majority of our cash flow surpluses are 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 mid-April the following fixed term investments were made:

| £m  | Bank / Building Society | Duration  | Rate  | Period            |
|-----|-------------------------|-----------|-------|-------------------|
| 1.0 | Bank of Scotland        | 12 Months | 0.95% | 11/4/14 – 13/4/15 |
| 1.0 | Lloyds TSB              | 12 Months | 0.95% | 11/4/14 – 13/4/15 |

1.4.8 The current cash flow forecast [**Annex 3**] indicates limited potential for further fixed term investment in the second half of the financial year.

1.4.9 The Council takes advantage of Capita's benchmarking facility which enables us to gauge our in-house 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 4**]. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 31 March 2014 our return (purple diamond) was above the average for all other local authorities. Our return also outperformed that anticipated by the model based on our exposure to credit / duration risk.

1.4.10 **Externally Managed Core Funds.** In accordance with previous Investment Strategies all of the Council's core funds are currently managed by an external fund manager. Members are reminded that under the 2014/15 Strategy (considered by Audit Committee in January 2014) these funds are to be transferred to in-house management by the end of the financial year.

1.4.11 The core fund is being used to support both revenue and capital expenditure over the next few years of our medium term financial strategy as the authority grapples with savings targets to achieve a balanced budget. The core fund balance is currently £13.4m (expected to reduce to circa £11m by the end of the financial year) and is now at a level where in-house management is practical without the need for additional staff resources.

1.4.12 The transfer will contribute to savings targets through reduced fund management fees. Diversification of investment across a broad range of high quality counterparties will continue to be a key feature of our portfolio going forward and



an element of liquidity within the core fund will be supported via the continued use of certificates of deposit.

- 1.4.13 Steps are currently being progressed to enable the transfer to take place over the summer.

## 1.5 Compliance with 2014/15 Annual Investment Strategy

- 1.5.1 During the financial year to date the Council has operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy. The Prudential and Treasury Indicators will be included for review as part of the treasury management report to the October 2014 meeting of Audit Committee. No borrowing was undertaken during April 2014.
- 1.5.2 Throughout April 2014 all of the requirements contained in the 2014/15 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit rating; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with.

## 1.6 2013/14 Treasury Management Outturn

- 1.6.1 A detailed report covering treasury management activity for the last financial year is being submitted to Cabinet on 25 June 2014 as an annex to the Revenue and Capital Outturn report for 2013/14. That annex is replicated in full and provided at **[Annex 5]** to this report.
- 1.6.2 A summary of the investment performance included in **[Annex 5]** is as follows:

| 2013/14 Financial Year                               | Average investment<br>£m | Gross rate<br>of return<br>% | Interest<br>earned<br>£ | Revised<br>estimate<br>£ |
|--|--------------------------|------------------------------|-------------------------|--------------------------|
| In-house managed cash flow<br>(excluding Landsbanki) | 10.9                     | 0.69                         | 75,150                  | 72,000                   |
| Externally managed core<br>funds                     | 15.1                     | 0.56                         | 84,500                  | 92,400                   |
| Total  | 26.0                     | 0.61                         | 159,650                 | 164,400                  |

- 1.6.3 Investment income of £159,650 is marginally below the 2013/14 revised estimate by £4,750. The gross return for the year of 0.61% exceeds the 7-day LIBID benchmark by 20 basis points. For year-end reporting purposes notional interest on our defaulted Landsbanki investment is added to the figures quoted above making total investment income for the year £179,800 (£15,400 higher than our revised estimate).

## **1.7 Legal Implications**

- 1.7.1 The Council invested £1m in a three month fixed term deposit with the Icelandic bank, Landsbanki. The bank went into administration a few days prior to the investments intended maturity in October 2008. Members will be aware from reports to the Finance, Innovation and Property Advisory Board and Audit Committee of the Council's intention to sell its claim via a competitive process. The Council's claim was sold at an auction of claims held in late January and proceeds from the sale were received in early February 2014. The combination of partial payments and auction proceeds brought the total amount recovered to just over 95% of the original £1m investment.
- 1.7.2 The Council's participation in a joint action, co-ordinated by the Local Government Association, has ensured our legal costs have been minimised whilst allowing the Council to advance the strongest possible arguments to secure recovery. Participation in the auction has ensured the risks associated with pursuing full recovery (which would take many more years) have been avoided. Officers are satisfied that the price achieved at auction represents a good outcome for the Council.

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

- 1.8.1 The Bank Rate is expected to remain at the current historical low of 0.5% throughout the 2014/15 financial year. The Funding for Lending initiative introduced by the Bank of England in summer 2012 has had a significant downward impact on returns being offered by financial institutions. As a consequence, budgeted returns for 2013/14 were reduced at the January meeting Finance, Innovation and Property Advisory Board by £71,650 to £164,400. At year end, investment income including notional interest on our "defaulted" landsbanki investment was £15,400 higher than our revised estimate.
- 1.8.2 The perpetuation of a low Bank Rate (0.5%) and the impact of Funding for Lending were key features in our income projection for the 2014/15 financial year. Investment income earned to the end of April 2014 of £13,150 is broadly in-line with those expectations.
- 1.8.3 The performance of our fund manager is monitored against all of the players in the public sector cash management market place using data provided by Capita. In addition, the performances of both externally and internally managed investments are monitored against relevant benchmarks. The performance of the Council's in-house managed portfolio is also compared to other local authorities using benchmarking data provided by Capita.

## **1.9 Risk Assessment**

- 1.9.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to

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

## 1.10 Equality Impact Assessment

1.10.1 See 'Screening for equality impacts' table at end of report.

## 1.11 Recommendations

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

- 1) Endorse the action taken by officers in respect of treasury management activity for April 2014; and
- 2) Note the 2013/14 outturn position.

Background papers:

contact: Mike Withey

Capita Interest Rate Forecast (May 2014)

Sharon Shelton  
Director of Finance and Transformation

| Screening for equality impacts:   |        |                        |
|---|--------|------------------------|
| Question  | Answer | Explanation of impacts |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | No     | N/A                    |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?   | No     | N/A                    |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?   |        | N/A                    |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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## Investment Summary as at 30 April 2014

| Counterparty                                | Sovereign   | Fitch Credit rating |            |           |         | Investment type<br>(Specified/Non-<br>specified)<br>[Statement date<br>to Maturity] | Investment<br>from | Maturity Date | Principal<br>sum<br>invested<br>£ | Return<br>(coupon /<br>yield at<br>purchase)<br>% | % of total<br>investments | Instrument<br>type | Managed by:        | Externally<br>Managed<br>Core Funds<br>£ | Internally<br>Managed<br>Cash Flow<br>£ | Non-specified<br>Investments<br>(NSI)<br>£ |
|---|-------------|---------------------|------------|-----------|---------|---|--------------------|---------------|-----------------------------------|---|---------------------------|--------------------|--------------------|--|---|--|
|   |             | Long Term           | Short Term | Viability | Support |   |                    |               |                                   |   |                           |                    |                    |  |   |  |
| Bank of Scotland                            | UK          | A                   | F1         | a-        | 1       | Specified   | 11/04/2014         | 13/04/2015    | 1,000,000                         | 0.95%   |                           | Fixed deposit      | Internally Managed |  | 1,000,000                               |  |
| <b>Bank of Scotland Total</b>               |             |                     |            |           |         |   |                    |               | <b>1,000,000</b>                  |   | 4.99%                     |                    |                    |  |   |  |
| Commonwealth Bank of Australia              | Australia   | AA-                 | F1+        | aa-       | 1       | Specified   | 20/03/2014         | 21/07/2014    | 600,000                           | 0.43%   |                           | CDs                | Externally Managed | 600,000                                  |   |  |
| <b>Commonwealth Bank of Australia Total</b> |             |                     |            |           |         |   |                    |               | <b>600,000</b>                    |   | 3.00%                     |                    |                    |  |   |  |
| Handelsbanken                               | Sweden      | AA-                 | F1+        | aa-       | 1       | Specified   | 29/11/2013         | 30/05/2014    | 2,100,000                         | 0.52%   |                           | CDs                | Externally Managed | 2,100,000                                |   |  |
| Handelsbanken                               | Sweden      | AA-                 | F1+        | aa-       | 1       | Specified   | 30/04/2014         | 01/05/2014    | 1,100,000                         | 0.60%   |                           | Call               | Internally Managed |  | 1,100,000                               |  |
| <b>Handelsbanken Bank Total</b>             |             |                     |            |           |         |   |                    |               | <b>3,200,000</b>                  |   | 15.98%                    |                    |                    |  |   |  |
| ING Bank                                    | Netherlands | A+                  | F1+        | a         | 1       | Specified   | 11/04/2014         | 11/07/2014    | 2,600,000                         | 0.52%   |                           | CDs                | Externally Managed | 2,600,000                                |   |  |
| <b>ING Bank Total</b>                       |             |                     |            |           |         |   |                    |               | <b>2,600,000</b>                  |   | 12.98%                    |                    |                    |  |   |  |
| Insight Liquidity Plus MF                   | Ireland     | AAA                 | f/S1 (S&P) | -         | -       | Specified   | 18/02/2014         | 04/05/2014    | 1,050,000                         | 0.83%   |                           | Call - EMF         | Internally Managed |  | 1,050,000                               |  |
| <b>Insight Liquidity Funds Total</b>        |             |                     |            |           |         |   |                    |               | <b>1,050,000</b>                  |   | 5.24%                     |                    |                    |  |   |  |
| Investec Sterling MF                        | Luxembourg  | AAA                 | -          | -         | -       | Specified   | 17/06/2013         | 01/05/2014    | 108,000                           | 0.37%   |                           | Call - EMF         | Externally Managed | 108,000                                  |   |  |
| <b>Investec Sterling MF Total</b>           |             |                     |            |           |         |   |                    |               | <b>108,000</b>                    |   | 0.54%                     |                    |                    |  |   |  |
| Lloyds Bank                                 | UK          | A                   | F1         | a-        | 1       | Specified   | 11/04/2014         | 13/04/2015    | 1,000,000                         | 0.95%   |                           | Fixed deposit      | Internally Managed |  | 1,000,000                               |  |
| <b>Lloyds Bank Total</b>                    |             |                     |            |           |         |   |                    |               | <b>1,000,000</b>                  |   | 4.99%                     |                    |                    |  |   |  |
| NatWest Bank Call Account                   | UK          | A                   | F1         | -         | 1       | Specified   | 30/04/2014         | 01/05/2014    | 343,000                           | 0.60%   |                           | Call               | Internally Managed |  | 343,000                                 |  |
| <b>National Westminster Bank Total</b>      |             |                     |            |           |         |   |                    |               | <b>343,000</b>                    |   | 1.71%                     |                    |                    |  |   |  |
| Nationwide Building Society                 | UK          | A                   | F1         | a         | 1       | Specified   | 20/02/2014         | 20/05/2014    | 500,000                           | 0.47%   |                           | CDs                | Externally Managed | 500,000                                  |   |  |
| <b>Nationwide Building Society Total</b>    |             |                     |            |           |         |   |                    |               | <b>500,000</b>                    |   | 2.50%                     |                    |                    |  |   |  |
| Nordea Bank (Finland)                       | Finland     | AA-                 | F1+        | aa-       | 1       | Specified   | 14/04/2014         | 14/07/2014    | 2,600,000                         | 0.51%   |                           | CDs                | Externally Managed | 2,600,000                                |   |  |
| <b>Nordea Bank (Finland) Total</b>          |             |                     |            |           |         |   |                    |               | <b>2,600,000</b>                  |   | 12.98%                    |                    |                    |  |   |  |
| Rabobank                                    | Netherlands | AA-                 | F1+        | aa        | 1       | Specified   | 30/04/2014         | 01/05/2014    | 840,000                           | 0.35%   |                           | TD                 | Externally Managed | 840,000                                  |   |  |
| <b>Rabobank Total</b>                       |             |                     |            |           |         |   |                    |               | <b>840,000</b>                    |   | 4.19%                     |                    |                    |  |   |  |
| Santander UK Plc                            | UK          | A                   | F1         | a         | 1       | Specified   | 30/04/2014         | 01/05/2014    | 2,100,000                         | 0.80%   |                           | Call               | Internally Managed |  | 2,100,000                               |  |
| <b>Santander UK Plc Total</b>               |             |                     |            |           |         |   |                    |               | <b>2,100,000</b>                  |   | 10.48%                    |                    |                    |  |   |  |
| Standard Chartered Bank                     | UK          | AA-                 | F1+        | aa-       | 1       | Specified   | 03/03/2014         | 03/06/2014    | 1,300,000                         | 0.47%   |                           | CDs                | Externally Managed | 1,300,000                                |   |  |
| <b>Standard Chartered Bank Total</b>        |             |                     |            |           |         |   |                    |               | <b>1,300,000</b>                  |   | 6.49%                     |                    |                    |  |   |  |
| UK Treasury Gilt                            | UK          | AA+                 | -          | -         | -       | Non-specified   | 29/05/2013         | 22/07/2018    | 2,281,000                         | 1.16%   |                           | UK Gilt            | Externally Managed | 2,281,000                                |   | 2,281,000                                  |
| UK Treasury Bill                            | UK          | AA+                 | -          | -         | -       | Specified   | 16/12/2013         | 16/06/2014    | 499,000                           | 0.36%   |                           | UK Bill            | Externally Managed | 499,000                                  |   |  |
| <b>UK Treasury Total</b>                    |             |                     |            |           |         |   |                    |               | <b>2,780,000</b>                  |   | 13.88%                    |                    |                    |  |   |  |
| Investec/Citibank uninvested balance        | USA         | A                   | F1         | a-        | 1       | Specified   |                    |               | 10,000                            | 0.25%   |                           | F Mgr cash bal     | Externally Managed | 10,000                                   |   |  |
| <b>Investec/Citibank uninvested balance</b> |             |                     |            |           |         |   |                    |               | <b>10,000</b>                     |   | 0.05%                     |                    |                    |  |   |  |
| <b>Total invested</b>                       |             |                     |            |           |         |   |                    |               | <b>20,031,000</b>                 |   | <b>100.00%</b>            |                    |                    | <b>13,438,000</b>                        | <b>6,593,000</b>                        | <b>2,281,000</b>                           |

|   |               |  |               |
|---|---------------|--|---------------|
| Number of investments   | 17            | Average investment value £             | 1,178,000     |
| Number of counter parties   | 15            | Average investment per counter party £ | 1,335,000     |
| <b>Group exposures (UK Nationalised) - max 25% for core funds or £2.6m cash flow.</b> |               |  |               |
|   | <b>Core £</b> | <b>Core %</b>                          | <b>Cash £</b> |
| RBS + National Westminster excluding RBS managed Global Treasury Fund                 | 0             | 0.00%                                  | 343,000       |
| Bank of Scotland + Lloyds TSB   | 0             | 0.00%                                  | 2,000,000     |

| Management Split :            | £          | %       | NSI limit = 60%<br>of core funds |
|-------------------------------|------------|---------|----------------------------------|
| Externally Managed Core Funds | 13,438,000 | 67.09%  | 16.97%                           |
| Internally Managed Cash Funds | 6,593,000  | 32.91%  |                                  |
| Total                         | 20,031,000 | 100.00% |                                  |

Notes: Investec data provided on an unaudited basis.

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## Tonbridge and Malling Borough Council Internal Lending List

| Checked against Capita Duration Matrix dated 25/04/14   |           |                      |                 |                  |                 |               |                |                     |
|---|-----------|----------------------|-----------------|------------------|-----------------|---------------|----------------|---------------------|
| Minimum investment criteria is Capita Green (100 days) Duration Band<br>(entry point broadly equates to Fitch A, F1, bbb-, 1 unless UK nationalised / semi-nationalised). |           |                      |                 |                  |                 |               |                |                     |
| Counterparty  | Sovereign | Sovereign Rating [1] | Fitch Long Term | Fitch Short Term | Fitch Viability | Fitch Support | Exposure Limit | Capita Duration [2] |
| Svenska Handelsbanken AB  | Sweden    | AAA                  | AA-             | F1+              | aa-             | 1             | £2.1m          | 12 months           |
| Barclays Bank   | UK        | AA+                  | A               | F1               | a               | 1             | £2.1m          | 100 days            |
| HSBC Bank plc   | UK        | AA+                  | AA-             | F1+              | a+              | 1             | £2.1m          | 12 months           |
| Santander UK plc  | UK        | AA+                  | A               | F1               | a               | 1             | £2.1m          | 100 days            |
| Nationwide Building Society   | UK        | AA+                  | A               | F1               | a               | 1             | £2.1m          | 100 days            |
| Bank of Scotland plc [3]<br>Group limit with BOS and Lloyds of £2.6m  | UK        | AA+                  | A               | F1               | a-              | 1             | £2.6m          | 1 year              |
| Lloyds Bank plc [3]<br>Group limit with BOS and Lloyds of £2.6m   | UK        | AA+                  | A               | F1               | a-              | 1             | £2.6m          | 1 year              |
| National Westminster Bank plc [3]<br>Group limit with Nat West and RBS of £2.6m   | UK        | AA+                  | A               | F1               | -               | 1             | £2.6m          | 1 year              |
| The Royal Bank of Scotland plc [3]<br>Group limit with Nat West and RBS of £2.6m  | UK        | AA+                  | A               | F1               | bbb             | 1             | £2.6m          | 1 year              |
| Debt Management Office  | UK        | AA+                  | N/A             | N/A              | N/A             | N/A           | No limit       | N/A                 |
| UK Local Authorities  | UK        | AA+                  | N/A             | N/A              | N/A             | N/A           | £2.1m          | 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, AAmmf or AAAm. |        |       |      |                |
| Fund Name   | Moody  | Fitch | S&P  | Exposure Limit |
| Blackrock   | AAA-mf | -     | AAAm | £2.1m          |
| BNP Paribas   | -      | -     | AAAm | £2.1m          |
| Goldman Sachs   | AAA-mf | AAmmf | AAAm | £2.1m          |
| Deutsche Fund   | AAA-mf | -     | AAAm | £2.1m          |
| Insight   | -      | AAmmf | AAAm | £2.1m          |
| Ignis   | -      | AAmmf | AAAm | £2.1m          |
| Morgan Stanley  | AAA-mf | AAmmf | AAAm | £2.1m          |
| Prime Rate  | AAA-mf | AAmmf | AAAm | £2.1m          |

| Enhanced Cash Funds              |       |       |          |                |
|----------------------------------|-------|-------|----------|----------------|
| Minimum investment criteria AAA. |       |       |          |                |
| Fund Name                        | Moody | Fitch | S&P      | Exposure Limit |
| Insight Liquidity Plus           | -     | -     | AAAf /S1 | £1.05m         |

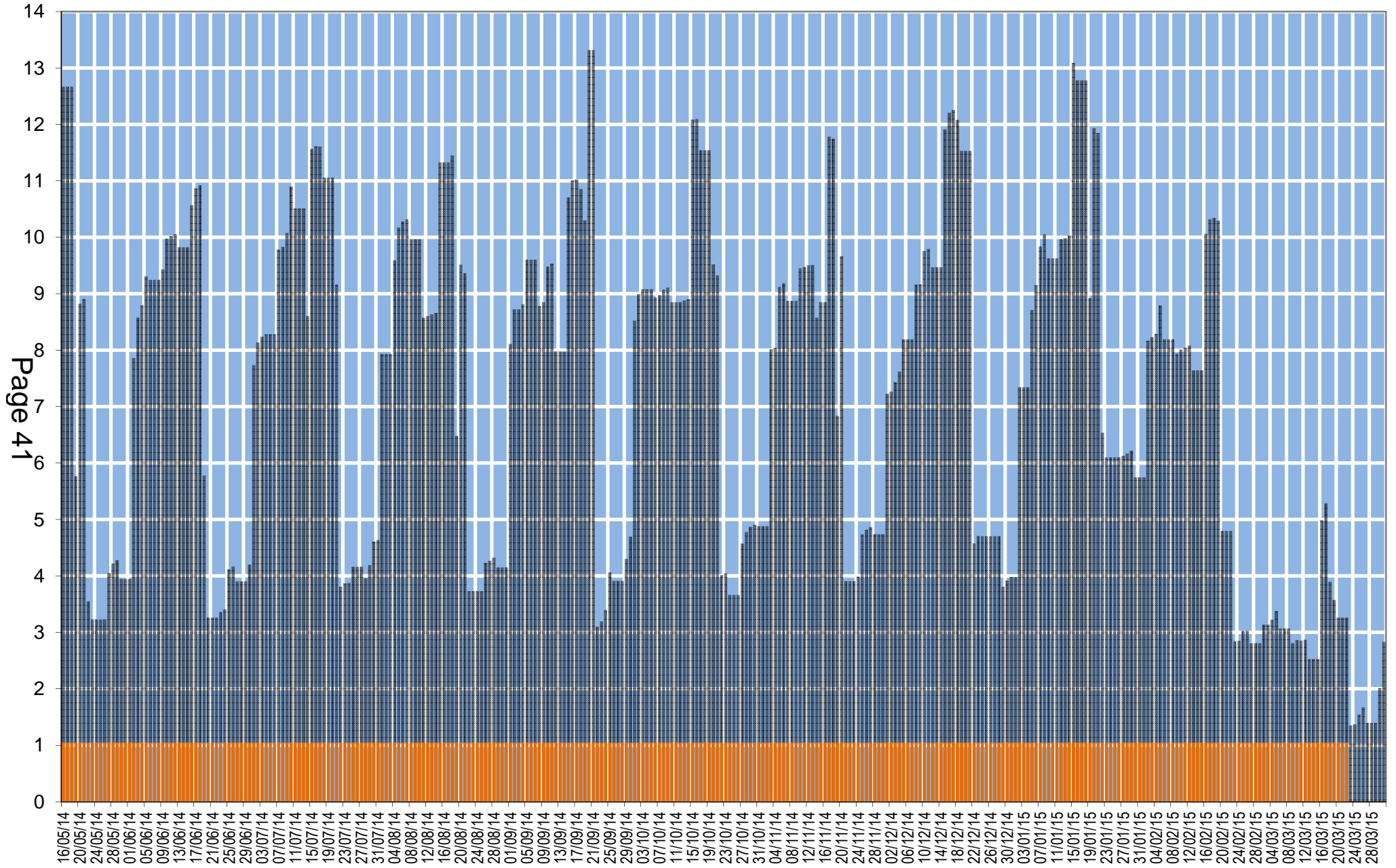
|   |           |
|---|-----------|
| Approved by Director of Finance and Transformation<br>28th April 2014 | No Change |
|---|-----------|

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Balance £M

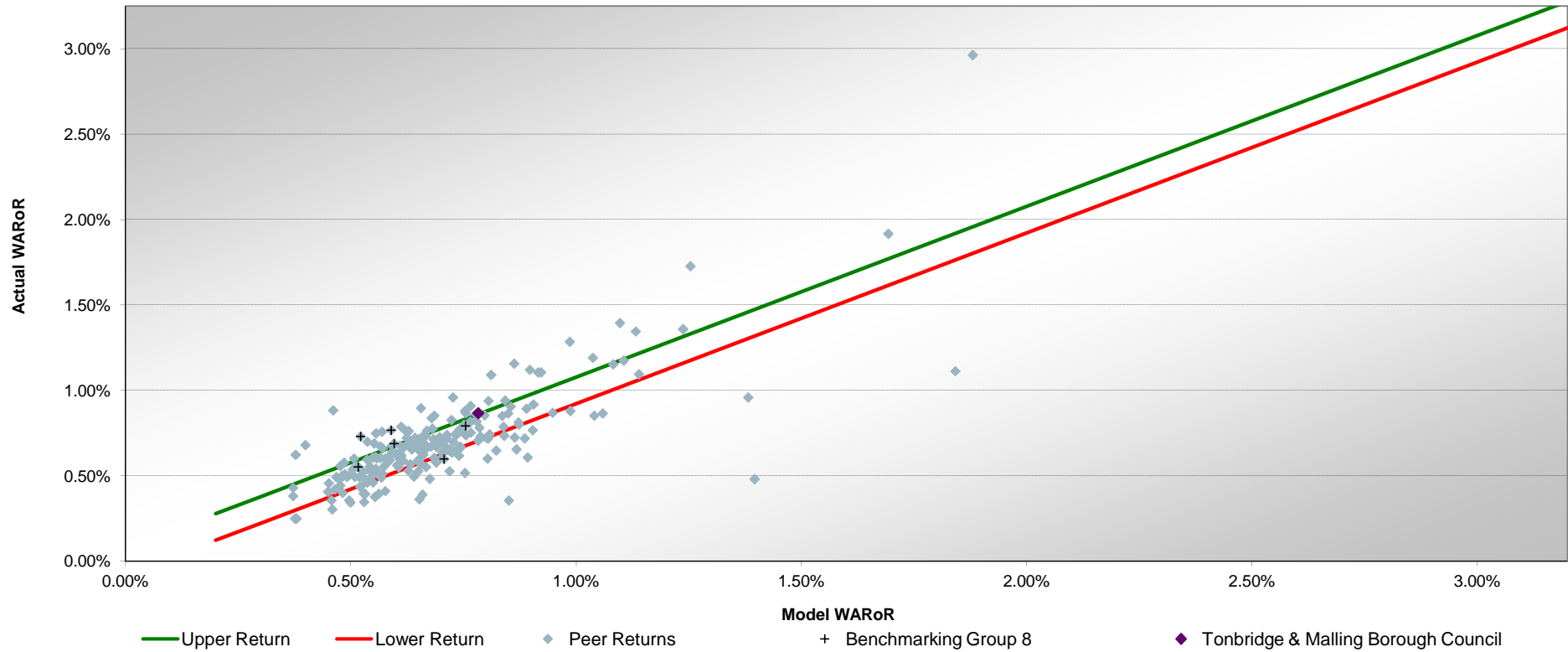
Excludes Fixed Term Cash Flow Investments



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Tonbridge & Malling Borough Council

Population Returns against Model Returns



Page 43

|                                     | Actual WARoR | Model WARoR | Difference | Lower Bound | Upper Bound | Performance |
|-------------------------------------|--------------|-------------|------------|-------------|-------------|-------------|
| Tonbridge & Malling Borough Council | 0.87%        | 0.78%       | 0.09%      | 0.70%       | 0.86%       | Above       |

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## Treasury Management Annual Report 2013/14

### 1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2013/14 [**Appendix 1**]. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.1.2 During 2013/14 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year;
- a mid-year treasury update report; and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management update reports have been presented to each meeting of the Audit Committee throughout the 2013/14 financial year. Treasury performance is also considered at the Finance, Innovation and Property Advisory Board through the regular Financial Planning and Control reports.

1.1.3 Recent changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council. Training on treasury management issues was undertaken in January 2014 to support Members' scrutiny role.

### 1.2 The Economy and Interest Rates

1.2.1 The original expectation for 2013/14 was that the Bank Rate would not rise during the year and for it to start rising, albeit slowly, from quarter 1 of 2015. This forecast rise has now been pushed back to start in quarter 3 of 2015. Economic growth (GDP) in the UK was virtually flat during 2012/13 but surged strongly during the 2013/14 financial year. As a consequence, no additional quantitative easing was introduced during 2013/14 and the Bank Rate ended the year unchanged at 0.5% for the fifth successive year. While CPI inflation had remained stubbornly high and substantially above the 2% target during 2012, by January 2014 it had, at last, fallen below the target rate to 1.9% and then fell further to 1.7% in February. It is also expected to remain at or slightly below target over the next two years.

- 1.2.2 Gilt yields were on a sharply rising trend during 2013 but volatility returned in the first quarter of 2014 as various fears sparked a flight to quality. The Funding for Lending Scheme, announced by the Bank of England in July 2012, resulted in a flood of cheap credit being made available to banks which then resulted in money market investment rates falling drastically in the second half of that year. Returns being offered by Banks and other financial institutions continued at abnormally low rates throughout 2013/14 (see chart at paragraph 1.5.1).
- 1.2.3 The UK coalition Government maintained its tight fiscal policy stance but recent strong economic growth has led to a reduction in the forecast for total borrowing (the most recent Autumn Statement and March Budget) of £97bn over the next five years, culminating in a £5bn surplus in 2018/19.
- 1.2.4 The EU sovereign debt crisis subsided during the year and confidence in the ability of the Eurozone to remain intact increased substantially. Perceptions of counterparty risk improved after the ECB statement in July 2012 that it would do “whatever it takes” to support struggling Eurozone countries. This led to a return of confidence in its banking system which has continued into 2013/14 and prompted a move away from only very short term investment. However, this is not to say that the problems of the Eurozone, or its banks, have ended as the zone faces the likelihood of weak growth over the next few years at a time when the total size of government debt for some nations is likely to continue rising. Upcoming stress tests of Eurozone banks could also reveal some areas of concern.

### 1.3 Treasury Position at 31 March 2014

- 1.3.1 At the beginning and the end of 2013/14 the Council's debt and investment position was as follows:

|                                   | 31 March<br>2013<br>£m | Rate /<br>Return<br>% | Average<br>duration<br>Years | 31 March<br>2014<br>£m | Rate /<br>Return<br>% | Average<br>duration<br>Years |
|-----------------------------------|------------------------|-----------------------|------------------------------|------------------------|-----------------------|------------------------------|
| <b>Variable rate debt:</b>        |                        |                       |                              |                        |                       |                              |
| Overdraft                         | 0.00                   | -                     | -                            | 0.00                   | -                     | -                            |
| <b>Total debt</b>                 | <b>0.00</b>            | -                     | -                            | <b>0.00</b>            | -                     | -                            |
|                                   |                        |                       |                              |                        |                       |                              |
| <b>Fixed rate investments:</b>    |                        |                       |                              |                        |                       |                              |
| In-house cash flow                | 2.00                   | 3.00                  | 0.03                         | 2.00                   | 1.10                  | 0.03                         |
| In-house cash flow Landsbanki     | 0.51                   | -                     | -                            | -                      | -                     | -                            |
| Externally managed core fund      | 2.06                   | 0.32                  | 0.01                         | 0.64                   | 0.35                  | 0.17                         |
| <b>Variable rate investments:</b> |                        |                       |                              |                        |                       |                              |
| In-house cash flow                | 3.44                   | 0.54                  | 0.01                         | 3.55                   | 0.74                  | 0.01                         |
| Externally managed core fund      | 13.33                  | 0.53                  | 0.18                         | 12.76                  | 0.62                  | 0.81                         |
| <b>Total Investments</b>          | <b>21.34</b>           | <b>0.75</b>           | <b>0.12</b>                  | <b>18.95</b>           | <b>0.68</b>           | <b>0.56</b>                  |

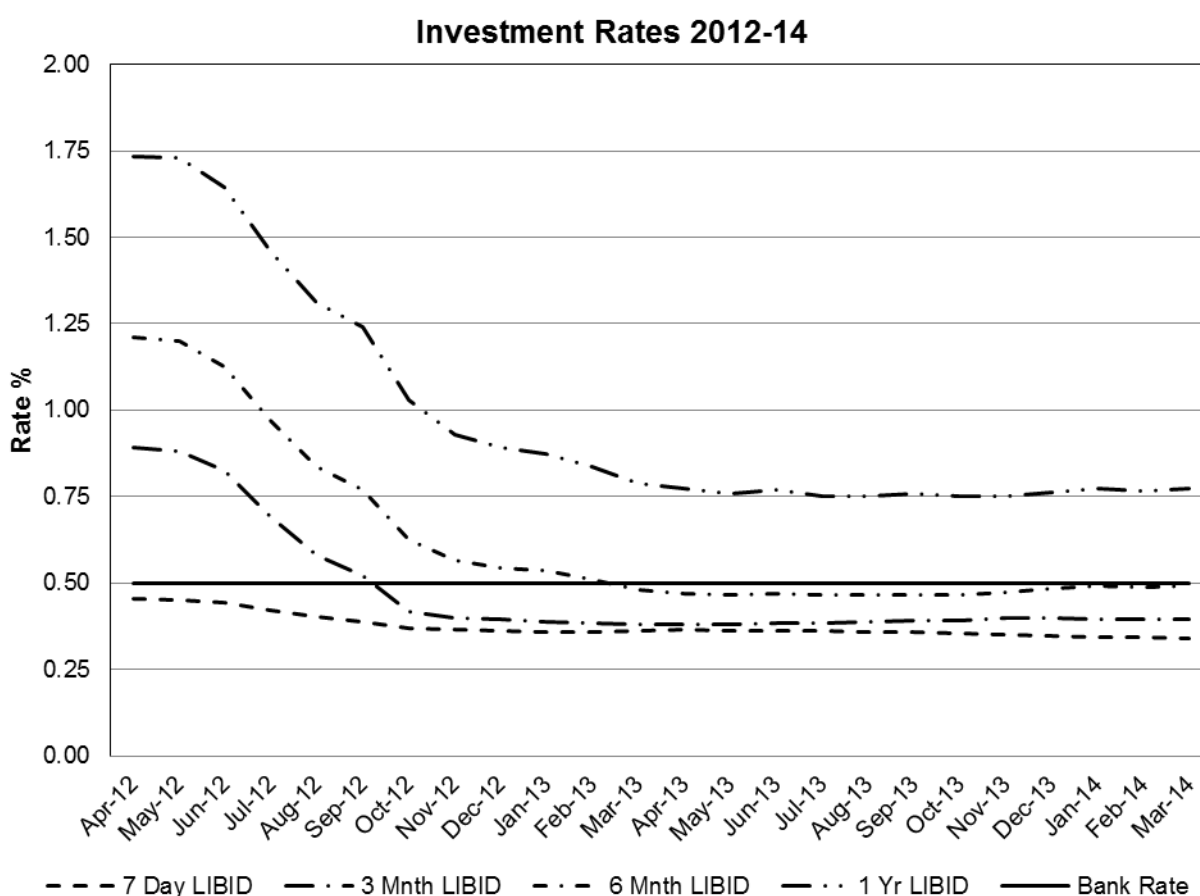
### 1.4 The Strategy for 2013/14

- 1.4.1 The expectation for interest rates within the strategy for 2013/14 anticipated a low but rising Bank Rate (starting in quarter 1 of 2015). Continued uncertainty in

the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

## 1.5 Investment Rates in 2013/14

- 1.5.1 The Bank Rate remained at its historic low of 0.5% throughout the year and has now remained at that level for five years. Market expectations as to the start of monetary tightening showed little change over the course of the year with an expectation that the first Bank Rate rise would take place around the end of 2014 / start of 2015. The Funding for Lending Scheme resulted in deposit rates remaining depressed during the whole of the year. Although that part of the scheme supporting provision of credit for mortgages came to an end in the first quarter of 2014 support for lending to businesses continues.



## 1.6 Investment Outturn for 2013/14

- 1.6.1 The Council's investment policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including rating outlooks and credit default swap data. The 2013/14 Annual Investment Strategy was approved by the Council in February 2013 and subjected to a mid-year review in October 2013. In undertaking the review, no changes were made to the Council's minimum counterparty credit requirement

or counterparty exposure limits. However, because of the continuing impact of Funding for Lending the review did warn that investment returns for 2013/14 would be lower than originally anticipated. Investment return expectations were formally reduced as part of the budget setting process in January and February 2014. Total investment income was reduced from £236,050 by £71,650 to £164,400.

- 1.6.2 All investment activity during the financial year complied with the requirements of the approved strategy. No liquidity issues were experienced resulting in nil borrowing throughout 2013/14.
- 1.6.3 **Cash Flow Investments held by the Council.** The Council maintained an average balance of £10.9m of internally managed cash flow funds. These funds earned an average rate of return of 0.69%. The comparable performance indicator is the average 7-day LIBID rate which was 0.41%. The return achieved also compares with a revised budget assumption of £10.3m investment balances earning an average rate of 0.70%.
- 1.6.4 The majority of cash flow funds are required to meet our regular payment obligations and as a consequence are invested overnight in bank deposit accounts and money market funds which allow next day access. However, the opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.
- 1.6.5 **Core Fund Investments held by the Fund Manager.** The Council uses Investec Asset Management to invest its core fund cash balances. Including unrealised losses (mainly related to gilt purchases) the manager earned an average rate of return of 0.56% on an average balance of £15.1m against a benchmark return of 0.41%. This compares with a revised budget assumption of an average investment balance of £15.4m at a return of 0.60%.
- 1.6.6 Unlike cash flow, core fund balances are not required to meet our regular payment obligations and are available to invest for longer durations including durations exceeding one year. This added flexibility should allow core funds to generate a better return relative to cash flow investments, however, this norm was not realised in 2013/14.
- 1.6.7 Performance for the financial year as a whole, excluding the Landsbanki investment, is summarised in the table below:

|                                 | 2013/14<br>Average<br>Balance<br>£m | Return<br>% | 2013/14<br>Interest<br>Earned<br>£ | 2013/14<br>Revised<br>Estimate<br>£ | Variance<br>Better<br>(worse)<br>£ |
|---------------------------------|-------------------------------------|-------------|------------------------------------|-------------------------------------|------------------------------------|
| In-house Cash Flow              | 10.9                                | 0.69        | 75,150                             | 72,000                              | 3,150                              |
| Externally Managed<br>Core Fund | 15.1                                | 0.56        | 84,500                             | 92,400                              | (7,900)                            |
| Total                           | 26.0                                | 0.61        | 159,650                            | 164,400                             | (4,750)                            |



- 1.6.8 The performance of both internally and externally managed funds fell short of our revised estimate predictions by £4,750 (£76,400 worse than expected when measured against the original 2013/14 estimates).
- 1.6.9 The figures in the table at paragraph 1.6.7 are then adjusted at year end to incorporate notional interest on the defaulted Landsbanki investment. Taking this adjustment into account, investment income for year-end reporting purposes is calculated at £179,800 against a revised estimate of £164,400 which is £15,400 better than expected.

## **1.7 Icelandic Bank Defaults**

- 1.7.1 The Council invested £1m in a three month fixed term deposit with the Icelandic bank, Landsbanki. The bank went into administration a few days prior to the investments intended maturity in October 2008. Members will be aware from reports to the Finance, Innovation and Property Advisory Board and Audit Committee of the Council's intention to sell its claim via a competitive process. The Council's claim was sold at an auction of claims held in late January and proceeds from the sale were received in early February 2014. The combination of partial payments and auction proceeds brought the total amount recovered to just over 95% of the original £1m investment.
- 1.7.2 The Council's participation in a joint action, co-ordinated by the Local Government Association (LGA), has ensured our legal costs have been minimised whilst allowing the Council to advance the strongest possible arguments to secure recovery. Participation in the auction has ensured the risks associated with pursuing full recovery (which would take many more years) have been avoided. Officers are satisfied that the price achieved at auction represents a good outcome for the Council.

Financial Services  
May 2014

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**Prudential and Treasury Indicators**

| <b>1 Prudential Indicators</b>                      | 2012/13<br>Actual<br>£'000 | 2013/14<br>Original<br>£'000 | 2013/14<br>Actual<br>£'000 |
|---|----------------------------|------------------------------|----------------------------|
| Capital expenditure                                 | 2,759                      | 2,965                        | 1,744                      |
| Ratio of financing costs to net revenue stream      | -2.83%                     | -2.06%                       | -1.41%                     |
| Net borrowing requirement:                          |                            |                              |                            |
| Brought forward 1 April                             | nil                        | nil                          | nil                        |
| Carried forward 31 March                            | nil                        | nil                          | nil                        |
| In year borrowing requirement                       | nil                        | nil                          | nil                        |
| Capital financing requirement as at 31 March        | nil                        | nil                          | nil                        |
| Annual change in capital financing requirement      | nil                        | nil                          | nil                        |
| Incremental impact of capital investment decisions: |                            |                              |                            |
| Increase in Council Tax (Band D) per annum          | £0.33                      | £(0.23)                      | £(0.23)                    |

| <b>2 Treasury Management Indicators</b>                               | 2012/13<br>Actual<br>£'000 | 2013/14<br>Original<br>£'000 | 2013/14<br>Actual<br>£'000 |
|---|----------------------------|------------------------------|----------------------------|
| Authorised limit for external debt:                                   |                            |                              |                            |
| Borrowing   | nil                        | 5,000                        | nil                        |
| Other long term liabilities   | nil                        | nil                          | nil                        |
| Total   | nil                        | 5,000                        | nil                        |
| Operational boundary for external debt:                               |                            |                              |                            |
| Borrowing   | nil                        | 2,000                        | nil                        |
| Other long term liabilities   | nil                        | nil                          | nil                        |
| Total   | nil                        | 2,000                        | nil                        |
| Actual external debt  | nil                        | nil                          | nil                        |
| Upper limit for fixed rate exposure over one year at year end         | nil                        | 0 – 60%                      | nil                        |
| Upper limit for variable rate exposure under one year at the year end | 16,767<br>(80.5%)          | 40 – 100%                    | 16,309<br>(86.1%)          |
| Upper limit for total principal sums invested for over 364 days       | nil                        | 60%                          | 2,234<br>(11.8%)           |

| <b>3 Maturity structure of new fixed rate borrowing during 2013/14</b> | Upper limit<br>% | Lower limit<br>% |
|--|------------------|------------------|
| Under 12 months  | 100              | nil              |
| Over 12 months   | nil              | nil              |

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

#### Joint Report of the Chief Executive and the Director of Finance & Transformation

#### Part 1- Public

#### Delegated

#### **1 WHISTLEBLOWING CHARTER (CONFIDENTIAL REPORTING CODE)**

**This report highlights suggested changes to the Charter and requests Members to recommend approval by General Purposes Committee.**

#### **1.1 Introduction**

1.1.1 This charter was reviewed by Members at their meeting of January 2014 and it was recommended that it was approved by General Purposes Committee. However, there has not been a General Purposes Committee meeting since and therefore it is still at draft stage.

1.1.2 Following the January review there were some minor changes requested by Personnel & Customer Services Manager.

1.1.3 In addition one of the officers named in the charter has married and changed her surname.

#### **1.2 Changes**

1.2.1 In paragraph 1.3 of the charter the legal reference has been changed to the Enterprise & Regulatory Reform Act 2013.

1.2.2 In paragraph 4.1 the first sentence has been expanded to apply to the "actions or behaviours of" all employees.

1.2.3 In paragraph 4.2 the word reasonably has been added and reference is made to "in the public interest".

1.2.4 In paragraph 4.3 a sentence has been added to clarify the Council position. "It recognises that co-workers are personally liable for acts of victimisation, and will take all reasonable steps to prevent this happening."

1.2.5 In paragraph 5.4 the name of Katey Durkin has been changed to Katey Arrowsmith.

### 1.3 Legal Implications

- 1.3.1 The Enterprise & Regulatory Reform Act 2013 includes reference to disclosures and this Charter reflects those changes and the duty that the Council has to protect those making disclosures.

### 1.4 Financial and Value for Money Considerations

- 1.4.1 The Charter gives staff a framework for raising concerns. The early reporting of any concern may enable prompt action to be taken minimising any potential financial cost to the Council.

### 1.5 Risk Assessment

- 1.5.1 Having a sound "whistleblowing" code in place enables staff to be confident of how concerns will be dealt with and encourages staff to raise concerns.

### 1.6 Equality Impact Assessment

- 1.6.1 This code is available to all irrespective of any equality issues and is designed to ensure a consistent approach to dealing with any concern raised. It has provision for dealing with any vexatious allegations.

### 1.7 Recommendations

- 1.7.1 Members are asked to review the draft code and subject to any required amendments to **RECOMMEND** that it is endorsed by the next General Purposes Committee.

Background papers:

contact: David Buckley

Nil

Julie Beilby  
Chief Executive

Sharon Shelton  
Director of Finance & Transformation

| Screening for equality impacts:   |        |                        |
|---|--------|------------------------|
| Question  | Answer | Explanation of impacts |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | No     | Not applicable         |

| <b>Screening for equality impacts:</b>  |               |                               |
|---|---------------|-------------------------------|
| <b>Question</b>   | <b>Answer</b> | <b>Explanation of impacts</b> |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? | No            | Not applicable                |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?                     |               | Not applicable                |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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# WHISTLEBLOWING CHARTER

**TONBRIDGE & MALLING BOROUGH COUNCIL**  
**WHISTLEBLOWING CHARTER**  
**A confidential reporting policy for all Councillors, employees and contractors**

## **1 Introduction**

- 1.1 Tonbridge & Malling Borough Council is committed to developing a culture where it is safe and acceptable for all its employees, including employees of providers and partners, and stakeholders to raise their concerns about what is happening at work.
- 1.2 This covers unlawful conduct, financial malpractice, dangers to the public or environment or avoidable losses. Avoidable losses arise from fraud, error, mismanagement or dishonesty.
- 1.3 The Whistleblowing Charter gives you the opportunity to have your concerns heard and investigated in confidence and without fear of reprisal. Our charter has been developed in accordance with the **Enterprise & Regulatory Reform Act 2013**. The Act was introduced to ensure that concerns raised by employees are dealt with at an early stage and in an appropriate manner, including protection for the employee.
- 1.4 We recognise that employees are often the first to notice that something is seriously wrong within the Council. We want all employees to feel confident about voicing and acting on concerns they may have about service provision, malpractice, conduct of officers, Councillors or anyone acting on behalf of the Council.

## **2 Aims of the Charter**

- 2.1 The charter 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
  - provide ways for you to take the matter further if you are dissatisfied with the Council's response.

### 3 What does the Charter cover

3.1 Malpractice, abuse and wrongdoing can cover a whole range of issues but we have listed examples here for your guidance:

- 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 (e.g. housing benefit fraud)
- 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. Tonbridge and Malling Staff 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.

3.2 Many of the above areas will represent inevitably an avoidable loss, which affects our service delivery.

3.3 The charter does NOT apply to raising grievances about an employee's personal situation and, thus, does not replace existing procedures for personal differences or conflicts. If you have concerns in this area you should consult with the Council's Grievance Policy or your immediate manager.

### 4 Who can use the Charter?

4.1 The charter applies to **the actions or behaviours of** all Council employees, contractors and suppliers including agency staff, and those who provide services under contract to the Council such as refuse collection workers.

4.2 You are encouraged to raise your concerns provided that:

- you make the disclosure in good faith
- you **reasonably** believe that the information or any allegation is **in the public interest**.

4.3 The Council will not tolerate false or malicious allegations or the victimisation of any employee who has raised a concern in good faith. **It recognises that co-workers are personally liable for acts of victimisation, and will take all reasonable steps to prevent this happening.**

4.4 Raising a matter maliciously that you know to be untrue or the victimisation of any employee may result in disciplinary action.

4.5 The Council will also to seek to minimise the effect on employees who have had a false or malicious allegation made against them.

## **5 How can I raise my concern?**

5.1 The earlier you express your concern, the easier it is to take action. As a first step, you should raise any concern you have with your immediate manager or their superior, orally or in writing.

5.2 If you feel that you have an issue that you cannot raise with your manager then you should contact one of the following: -

- any assistant director or chief officer;
- a Personnel officer;
- the Chief Executive or head of service;
- the Chief Internal Auditor;
- the Audit Manager ;or
- the Fraud Investigation Manager

5.3 The Chief Internal Auditor is the main point of contact for staff wishing to report an incident using the whistleblowing procedure. In his absence the Audit Manager or Fraud Investigation Manager will be the point of contact. They will ensure that the matter is investigated.

5.4 You can call the Chief Internal Auditor on 01732 876086 or by email to [david.buckley@tmbc.gov.uk](mailto:david.buckley@tmbc.gov.uk). The Audit Manager is Katey Arrowsmith who can be contacted on 01732 876085 or by email at [katey.arrowsmith@tmbc.gov.uk](mailto:katey.arrowsmith@tmbc.gov.uk) and the Fraud Investigation Manager is James Larkin who can be contacted on 01732 876337 or by email at [james.larkin@tmbc.gov.uk](mailto:james.larkin@tmbc.gov.uk) . All calls are treated in the strictest confidence.

## **6 How will the Council respond?**

6.1 The Council's response will depend on the nature of the concern that has been raised. In all instances the Council will:

- record and acknowledge your concern and refer the matter for investigation within three days of receiving the report;
- respect your confidentiality – your identity will not be disclosed to anyone without your consent;
- assess your concerns to determine further action;
- let you know what enquiries have been made;
- tell you whether further investigations will be made and if not, why not; and
- inform you of the final outcome of the inquiry.

6.2 Depending on the nature of the issue raised, the Council may:

- request more information or evidence from you;
- investigate through an internal audit;
- undertake disciplinary action;
- launch an independent enquiry; or
- refer the matter to the police.

## **7 Can I take the matter further if I'm not satisfied?**

7.1 In the first instance, we encourage all employees to raise their concern within the Council. If you are unhappy with the process or outcome of an investigation you can

7.2 contact one of the following organisations or any organisation that you feel will be able to deal with your concerns:

- the Audit Commission's Public Interest Disclosure Line: 020 7630 1019;
- the independent charity Public Concern at Work: 020 7404 6609;
- Unison whistleblowing hotline: 0800 597 9750; or
- Grant Thornton (external auditor) 01293 554 071

7.3 If taking a concern outside the Council, employees should not disclose any Confidential information unless they are doing so in accordance with the Whistleblowing Charter.

## **8 Responsible officer**

8.1 The Chief Internal Auditor is responsible for the supervision and co-ordination of all fraud matters, including the maintenance and operation of this policy. A record of concerns raised and the outcomes is maintained by him.

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

9.1 The Audit Committee will receive annual reports of all matters raised under the Charter. The Charter will be reviewed annually by the Audit Committee and recommended to the General Purposes Committee for approval.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

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

#### Part 1- Public

#### Delegated

### 1 STATEMENT OF ACCOUNTS 2013/14

**This report presents an unaudited set of Accounts for 2013/14 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 for consideration and endorsement. The Accounts include the proposals recommended to the Cabinet meeting on 25 June.**

#### 1.1 Introduction

- 1.1.1 An audited set of Accounts for 2013/14 must be approved by the Council or a Committee of the Council by 30 September 2014. Under the Council's constitutional arrangements responsibility for the approval of the Statement of Accounts is delegated to the General Purposes Committee. The General Purposes Committee has a meeting scheduled for the 23 June to approve the Accounts (unaudited) and 1 September to approve the audited Accounts.
- 1.1.2 The role of this Committee is to consider and peruse the unaudited set of Accounts and to make recommendations as deemed appropriate to the meeting of the General Purposes Committee on the 23 June. Due to the timing of meetings any recommendations deemed appropriate will be reported verbally to the meeting of the General Purposes Committee.

#### 1.2 Statement of Accounts

- 1.2.1 The Accounts are to be prepared in accordance with International Financial Reporting Standards. The Code of Practice on Local Authority Accounting in the United Kingdom is issued by the Chartered Institute of Public Finance and Accountancy and is reviewed and as appropriate updated at least annually.
- 1.2.2 The Accounts for 2013/14 reflect the changes to International Accounting Standard 19 in respect of pensions and the introduction of the Business Rates Retention scheme where the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of business rates.

1.2.3 An unaudited set of Accounts for 2013/14 is enclosed with this agenda. It consists of the following individual financial statements and associated notes.

- 1) Movement in Reserves Statement – this Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (those that can be applied to fund expenditure and or reduce local taxation) and other reserves (those that the Council is not able to use to provide services, for example, the revaluation reserve).
- 2) Comprehensive Income and Expenditure Statement – this Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.
- 3) Balance Sheet – sets out the financial position of the Council at 31 March 2014. It shows the value of the Council’s assets and liabilities, and its balances and reserves.
- 4) Cash Flow Statement – this summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes.
- 5) Notes to the financial statements.
- 6) Collection Fund and Associated Notes – shows the total local taxation transactions in relation to business rates and council tax.

1.2.4 At **[Annex 1]** is a more detailed overview of the Statement of Accounts and at **[Annex 2]** a checklist certified by the Director of Finance and Transformation in support of the assertions made in the Statement of Responsibilities for the Statement of Accounts.

1.2.5 Members will note in accordance with the Accounts and Audit Regulations and in my role as the Council’s responsible financial officer, I have certified that the Statement of Accounts present a “true and fair view” of the financial position of the local authority at the end of the year and its income and expenditure for the year.

1.2.6 The Statement of Accounts is subject to external audit and our external auditors are to commence the audit of the Accounts shortly.

### **1.3 Accounts and Audit Regulations**

1.3.1 The Accounts and Audit Regulations (England) 2011 require:

- The Council’s responsible financial officer to certify an unaudited set of accounts for issue that present a “true and fair view” of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014 by no later than 30 June.



- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 30 September, and that following approval both the responsible financial officer and Chairman of the receiving Committee sign and date the Statement of Accounts.
- Authorities to have in place a sound system of corporate governance and that an Annual Governance Statement is to accompany, but is not part of the Accounts.

#### **1.4 Statement of Auditing Standards**

1.4.1 Our External Auditor (Grant Thornton) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts. Under the Council's constitutional arrangements it is the General Purposes Committee that will receive this report. The report is expected to be presented to the General Purposes Committee meeting on 1 September 2014.

#### **1.5 Revenue and Capital Outturn 2013/14**

1.5.1 At the time of writing this report, Cabinet, at its meeting on 25 June, is due to receive a joint report on the Revenue and Capital Outturn for the year 2013/14. That report and the associated Outturn Booklet contain details of variations between the 2013/14 revised estimates and outturn.

1.5.2 Members are to be advised at this meeting that the overall revenue outturn was within budget with a contribution to the General Revenue Reserve of £296,820 compared with the revised estimate figure of £71,150.

1.5.3 In addition, that we had as part of the closedown process undertaken a review of the specific earmarked reserves held by the Council and invited Cabinet to endorse that:

- A Business Rates Retention Scheme reserve is established in the sum of £1,500,000, in the main, to take account of the accounting arrangements, e.g. safety net payment accounted for in year and the deficit that triggered the safety net payment in the following year. The balance of around £126,000 is to meet in full or in part our share of any shortfall between our business rates income and the baseline for 2014/15. The maximum amount the authority has to meet of any shortfall in 2014/15 is circa £154,000.
- A sum of £50,000 is to be added to the Invest to Save Reserve to fund initiatives to reduce costs and or generate additional income.

1.5.4 These proposals have been reflected within the outturn position given above.

1.5.5 **[Annex 3]** provides details of movements on the special projects reserve, other earmarked reserves and minor revenue adjustments agreed by the Director of

Finance and Transformation during the closedown process or to be agreed by Members.

## **1.6 Annual Governance Statement 2013/14**

1.6.1 An Annual Governance Statement is to accompany, but is not part of the Accounts. The Annual Governance Statement for the year ended 31 March 2014 was considered at the April meeting of the Committee. At that meeting Members asked that the Statement open with the following sentence: "The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation." Other than the amendment outlined above, the Statement as presented was endorsed by Members.

## **1.7 Legal Implications**

1.7.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement. There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

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

1.8.1 As set out above.

## **1.9 Risk Assessment**

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

## **1.10 Equality Impact Assessment**

1.10.1 See 'Screening for equality impacts' table at end of report

## **1.11 Recommendations**

1.11.1 To note and endorse the Statement provided by the Director of Finance and Transformation [**Annex 2**] in support of assertions made in the Statement of Responsibilities for the Statement of Accounts.

1.11.2 To note and endorse the recommendations detailed at paragraph 1.5.3 following a review of the specific earmarked reserves held by the Council.

1.11.3 To note and endorse the enclosed unaudited set of Accounts for 2013/14 and to make such recommendations, as the Committee considers appropriate, to the General Purposes Committee meeting on 23 June.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Sharon Shelton  
Director of Finance and Transformation

| <b>Screening for equality impacts:</b>  |               |   |
|---|---------------|---|
| <b>Question</b>   | <b>Answer</b> | <b>Explanation of impacts</b>   |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | N / A         | The report presents an unaudited set of Accounts for 2013/14 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 for consideration and endorsement. |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?   | N / A         | See above.  |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?   |               | N / A   |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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## Overview of Statement of Accounts 2013/14

The Statement of Accounts 2013/14 consists of, amongst other things, the following financial statements and associated notes; the Movement in Reserves Statement; the Comprehensive Income and Expenditure Statement; the Balance Sheet; the Cash Flow Statement; and the Collection Fund.

1) Explanatory Foreword (Pages 1 to 11)

The foreword provides a brief explanation of the financial aspects of the Council's activities for the year ended 31 March 2014; highlights any major events or changes in presentation or accounting that impact on the Accounts; and a review of the year and possible issues for the future.

2) Statement of Responsibilities for the Statement of Accounts (Page 12)

This sets out the respective responsibilities of the Authority and the Council's responsible financial officer.

3) Movement in Reserves Statement (Page 13)

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus / (deficit) on provision of services shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charges to the General Fund Balance for Council Tax setting. The net increase / (decrease) before transfers to or from earmarked reserves shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

4) Comprehensive Income and Expenditure Statement (Page 14)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The Statement is divided into five distinct sections.

The first section provides segmental accounting information on the costs of the Council's continuing operations, net of specific grants and income from fees and charges, to give the net cost of services.

The second section comprises items of income and expenditure relating to the Council as a whole and not to any individual service, e.g. parish council precepts.

The third section comprises items of income and expenditure arising from financing and investment activities, e.g. investment income.

The fourth section shows the income from local taxation, general government grants and all capital grants and contributions in the period, to give the net deficit or surplus on provision of services for the year.

The final section shows other items that have contributed to the movement in the net worth of the Council, e.g. increase / decrease in the value of its assets, to give a total comprehensive income and expenditure for the year.

The total comprehensive income and expenditure for the year is (£1.8m) compared to (£3.2m) for 2012/13. The movement of £1.4m is largely due to:

- Gains of £3.7m following the revaluation of the Council's land and buildings compared to a gain of £8.3m in 2012/13; off-set by
- Reduction of £1.4m in cost of services which is largely due to the capitalised gain on the pension fund in respect of the Leisure Services Business Unit;
- Increase of £1.3m in the fair value of investment properties; and
- Increase of £0.6m in taxation and non-specific grant income primarily due to New Homes Bonus monies.

#### 5) Balance Sheet (Page 15)

This sets out the financial position of the Council as at 31 March 2014. The Balance Sheet is fundamental to the understanding of the Council's year-end financial position. It shows the Council's assets and liabilities, and its balances and reserves.

As at 31 March 2014 the total value of the Council's non-current assets was £67.2m (£62.3m at 31 March 2013). Movements in non-current assets reflect the Council's capital programme and revaluation, depreciation, impairment and disposal of assets.

In accordance with the rolling programme properties for community use were the subject of revaluation. In addition, the asset class car parks, council offices and major leisure premises were also the subject of revaluation, together with heritage assets and investment property. The revaluation resulted in an overall gain of £3.8m excluding investment

property of which £3.7m is recognised in the revaluation reserve and £0.1m in the Comprehensive Income and Expenditure Statement representing the reversal of revaluation losses in previous years. Investment property experienced an increase in fair value of £1.3m which is recognised in the Comprehensive Income and Expenditure Statement.

The upward movement in debtors is largely due to the introduction of the Business Rates Retention scheme in 2013/14 comprising a safety net payment due to the Council, sums owed by the other participants in the scheme representing their share of the deficit at the year-end and our share of sums owed by business ratepayers; increase in the amount owed in respect of housing benefit overpayments; and severe weather grant funding due to the Council.

The upward movement in creditors is largely due to the introduction of the Business Rates Retention scheme in 2013/14 representing our share of sums owed to business ratepayers; and sums owed to major precepting authorities in respect of their share of the council tax surplus at the year-end offset by a decrease in amounts owed to central government in respect of prior years' business rates and housing benefit and council tax benefit subsidy.

The increase in Provisions is largely due to the introduction of a NNDR Appeals provision to meet our share of the cost arising from successful appeals by business ratepayers.

The Pensions Liability as at 31 March 2014 was £48.8m and as at 31 March 2013 £47.8m.

The Council's Reserves stand at £17.1m at 31 March 2014 comprising:

|                                     |        |
|-------------------------------------|--------|
| Revenue Reserve for Capital Schemes | £7.5m  |
| Building Repairs Reserve            | £0.02m |
| Other Specific Earmarked Reserves   | £3.7m  |
| General Revenue Reserve             | £5.9m  |

Included in Other Specific Earmarked Reserves is a Business Rates Retention Scheme reserve in the sum of £1.5m established, in the main, to take account of accounting arrangements, e.g. safety net payment accounted for in year and the deficit that triggered the safety net payment in the following year.

6) Cash Flow Statement (Page 16)

This summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes. The statement shows that there was a net cash inflow of £0.2m.

7) Notes to the Accounts (Pages 17 to 62)

These are the notes to the four core financial statements detailed above.

8) Collection Fund and Associated Notes (Pages 63 to 66)

This reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, showing the transactions in relation to business rates and council tax and illustrates how the demands on the Fund from Kent County Council, Police and Crime Commissioner for Kent, Kent & Medway Fire and Rescue Authority and the Borough Council General Fund in respect of council tax and Central Government, Kent County Council, Kent & Medway Fire and Rescue Authority and the Borough Council General Fund in respect of business rates have been satisfied. The Collection Fund is consolidated with the other accounts of the billing authority within the Balance Sheet.

9) Annual Governance Statement (Pages 67 to 70)

This Statement accompanies the Statement of Accounts, but is not part of the Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation. Governance is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

10) Independent Auditor's Report (Pages 71 to 72)

The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014, and review the Annual Governance Statement.

11) Glossary (pages 73 to 76)

A glossary of terms used in the Statement of Accounts.



**DECLARATION IN SUPPORT OF ASSERTIONS MADE IN THE  
STATEMENT OF RESPONSIBILITIES FOR THE  
STATEMENT OF ACCOUNTS**

This statement is given in respect of the Statement of Accounts 2013/14.

I acknowledge my responsibility for preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14; and that the Accounts present a “true and fair view” of the financial position of the Council and of its income and expenditure for the year ended 31 March 2014.

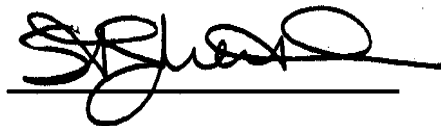
In doing so, the following have been done:

- A detailed closedown timetable (final accounts working paper 36) was prepared and approved by the Corporate Management Team, and communicated to all Services.
- Detailed Year-End Service Guidance Notes (final accounts working paper 38) were prepared and issued to all Services.
- Recommendations made by our external auditors following the audit of the 2012/13 Statement of Accounts have been reviewed and actioned where appropriate.
- Reconciliations have been carried out between the Council’s financial ledger (Integra) and the Revenues & Benefits system (iWorld).
- The trial balance (final accounts working paper 34) has been balanced.
- The total for each accountant as per the trial balance (final accounts working paper 34) has been agreed to the net total as per the ledger control sheets.
- The Total Service Expenditure as per the General Fund (final accounts working paper 22) has been agreed to the movement in the General Fund on the Integra General Ledger (final accounts working paper 23).
- The non-current assets entries in the Balance Sheet are in line with valuations and other known transactions.
- The entries within the Collection Fund have been agreed with other financial statements in the Statement of Accounts and the Council Tax set by both the Council on 14 February 2013 and other major precepting authorities.
- The total comprehensive income and expenditure for the year as shown in the Comprehensive Income and Expenditure Statement (final

accounts working paper 18) has been agreed to the Total Reserves movement reflected in the Balance Sheet (final accounts working paper 11).

- The movement in cash and cash equivalents as per the Cash Flow Statement has been agreed with the movement in the cash and cash equivalents balances as per the Balance Sheet (final accounts working paper 11).
- An Analytical Review with explanatory notes of significant variations between 2012/13 and 2013/14 has been prepared.
- The Final Accounts Disclosure Checklist 2013/14 will be completed when available.
- The Final Accounts Protocol 2013/14 produced by the Audit Commission will be completed when available.

Signed:

A handwritten signature in black ink, appearing to read 'S.J. Shelton', written over a horizontal line.

Dated: 4 June 2014

S.J. Shelton, CPFA  
Director of Finance and Transformation

TABLE 1

| Special Projects Reserve              | 2013/14         |                 |                 |
|---------------------------------------|-----------------|-----------------|-----------------|
|                                       | Revised<br>£    | Outturn<br>£    | Variance<br>£   |
| <b>Contribution to/(from) in Year</b> |                 |                 |                 |
| Borough Signage                       | (3,200)         | (3,169)         | 31              |
| Crime & Disorder Initiatives          | (20,000)        | (5,368)         | 14,632          |
| Development Control Scanning          | -               | (7,000)         | (7,000)         |
| Environmental Health Initiatives      | -               | (6,300)         | (6,300)         |
| Housing Survey                        | (7,900)         | (13,385)        | (5,485)         |
| Repossessions Prevention Fund         | (5,500)         | (6,319)         | (819)           |
| River Wall at Wouldham                | (20,000)        | (20,000)        | 0               |
| Waste and Street Scene Initiatives    | -               | (6,000)         | (6,000)         |
| <b>Movement in Year</b>               | <b>(56,600)</b> | <b>(67,541)</b> | <b>(10,941)</b> |

TABLE 2

| Other Earmarked Reserves                                    | 2013/14          |                  |                  |
|---|------------------|------------------|------------------|
|   | Revised<br>£     | Outturn<br>£     | Variance<br>£    |
| <b>Contribution to/(from) in Year</b>                       |                  |                  |                  |
| Election Expenses   | 12,800           | 18,924           | 6,124            |
| Housing Assistance  | 150,000          | 150,000          | 0                |
| Housing and Welfare Reform                                  | -                | 4,255            | 4,255            |
| Local Development Framework                                 | 10,000           | 93               | (9,907)          |
| Tonbridge and Malling Leisure Trust                         | 200,000          | 200,000          | 0                |
| Community Enhancement Fund                                  | (2,850)          | (2,851)          | (1)              |
| Homelessness  | (4,900)          | (4,889)          | 11               |
| Housing and Planning Delivery Grant                         | (16,400)         | (16,337)         | 63               |
| Invest to Save  | (55,250)         | (58,022)         | (2,772)          |
| Leisure Services Business Unit                              | (100,000)        | (100,000)        | 0                |
| Medium Term Financial Strategy                              | (250,000)        | (250,000)        | 0                |
| Planning Inquiries  | (35,000)         | (39,145)         | (4,145)          |
| Risk Management Support                                     | (2,250)          | (2,258)          | (8)              |
| Supporting People   | -                | (700)            | (700)            |
| Tonbridge Town Centre                                       | (80,000)         | (34,593)         | 45,407           |
| Town Team Partners  | (10,000)         | (10,000)         | 0                |
| <b>Approved by Director of Finance &amp; Transformation</b> |                  |                  |                  |
| Business Support Scheme                                     | -                | 250,000          | 250,000          |
| Flood Recovery and Defence                                  | -                | 176,000          | 176,000          |
| Public Health   | -                | 17,093           | 17,093           |
| <b>For Approval</b>   |                  |                  |                  |
| Business Rates Retention Scheme                             | -                | 1,500,000        | 1,500,000        |
| Invest to Save  | -                | 50,000           | 50,000           |
| <b>Movement in Year</b>                                     | <b>(183,850)</b> | <b>1,847,570</b> | <b>2,031,420</b> |

TABLE 3

| Revenue Adjustments                     | 2013/14      |                |                |
|---|--------------|----------------|----------------|
|   | Revised<br>£ | Outturn<br>£   | Variance<br>£  |
| <b>Expenditure / (Receipts) in Year</b> |              |                |                |
| Rechargeable Works Overheads            | -            | (294)          | (294)          |
| Miscellaneous Cash                      | -            | (1,004)        | (1,004)        |
| <b>Movement in Year</b>                 | <b>-</b>     | <b>(1,298)</b> | <b>(1,298)</b> |

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

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

#### Part 1- Public

#### Delegated

#### **1 REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT 2013-14**

**This report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function and to seek Members endorsement of the effectiveness of the function during the 2013-14 financial year.**

#### **1.1 Background**

1.1.1 The Accounts and Audit Regulations 2011 require councils to conduct an annual review of the effectiveness of Internal Audit. The Chief Internal Auditor has conducted the review of effectiveness for 2013-14 and a summary of the findings of this review can be found at **[Annex 1]** to this report.

1.1.2 It is important to note that the review is about effectiveness, not process. The focus of the review should be on the delivery of internal audit to the standard required by the Council in order for the Council to be able to place reliance on its outputs.

1.1.3 The findings of the review of effectiveness were presented to Management Team on 3 June 2014. At this meeting, Management Team reviewed the findings from the review and then agreed an opinion as to whether the findings of this review demonstrated that the internal audit function in place during 2013-14 was effective, using the opinion definitions overleaf:

| Opinion        | Definition   |
|----------------|--|
| Good           | The arrangements put in place by the Council provide <b>substantial</b> assurance of the adequacy of the control environment as a contribution to the achievement of its objectives. |
| Satisfactory   | The arrangements put in place by the Council provide <b>reasonable</b> assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.  |
| Adequate       | The arrangements put in place by the Council provide <b>limited</b> assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.     |
| Unsatisfactory | The arrangements put in place by the Council provide <b>no</b> assurance of the adequacy of the control environment as a contribution to the achievement of its objectives.          |

1.1.4 It was concluded by Management Team that the opinion on the effectiveness of the Internal Audit function in place during 2013-14 was **Good**.

## 1.2 Legal Implications

1.2.1 The Accounts and Audit Regulations 2011 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 relative to the 2013-14 financial year is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note to the PSIAS, published by CIPFA.

1.2.2 The Regulations also require the Council to conduct, at least once a year, a review of the effectiveness of its internal audit. The review conducted gives due consideration to proper practice.

## 1.3 Financial and Value for Money Considerations

1.3.1 There are no direct financial implications from this report.

## 1.4 Risk Assessment

- 1.4.1 The review of effectiveness provides assurance of the proper operation of the Internal Audit function of the Council. The findings of the review should therefore be properly considered as part of the Council's overall governance arrangements.

## 1.5 Equality Impact Assessment

- 1.5.1 See 'Screening for equality impacts' table at end of report

## 1.6 Recommendations

- 1.6.1 Members consider the findings of the 2013-14 review of the effectiveness of Internal Audit and endorse the opinion that the effectiveness of Internal Audit during 2013-14 was **Good**.

Background papers:

Nil

contact: David Buckley  
Katey Arrowsmith

Sharon Shelton  
Director of Finance and Transformation

| Screening for equality impacts:   |        |                        |
|---|--------|------------------------|
| Question  | Answer | Explanation of impacts |
| a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? | No     |                        |
| b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?   | No     |                        |
| c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?   |        | N/A                    |

*In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.*

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**Summary of Measures to demonstrate the effectiveness of Internal Audit – 2013-14 Review**

| Measure  | Finding   |
|--|---|
| <p>Review of the Internal Audit team against proper practice, as defined as the <i>Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards</i>.</p> | <p>The Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards were introduced as proper Practice from 1 April 2013. A self-assessment was conducted in August 2013 and reported to the Audit Committee in October 2013. This assessment identified some areas where minor procedural and administrative amendments were required to meet the new PSIAS and the team worked in the remainder of the 2013-14 year to address these areas.</p> <p>A self-assessment conducted in May 2014 confirmed that the team are considered to be working in compliance with the PSIAS. One action remains; Internal Audit teams are required to be externally assessed against the PSIAS once in a five-year period. Consideration is currently being given to scheduling an assessment in the 2015-16 financial year.</p> |
| <p>The internal audit planning process, demonstrating that audit planning is risk-based and reflects the business objectives of the Council.</p>   | <p>The annual audit planning exercise for the coming financial year uses a risk-based methodology to ensure the most effective use of Internal Audit resource. This exercise reflects the business objectives of the Council.</p>   |
| <p>Customer Satisfaction survey results.</p>   | <p>The bi-annual client satisfaction survey conducted in April 2013 assessed the Internal Audit Team as providing a good internal audit service. The service was rated at 3.86 against a maximum rating of 4.0.</p> <p>Customer satisfaction surveys are sent to all client managers on publication of a final internal audit report. The results of surveys returned during 2013-14 gave an overall satisfaction measure of 100% against a target of 80%.</p>  |
| <p>Key performance indicator outturns.</p>   | <p>A set of seven performance measures have been developed to assess the effectiveness of the Internal Audit team in achieving a quality Internal Audit Service. As reported in the Annual Internal Audit Report 2013-14, during the year the team met all of the seven performance measures.</p>   |

**Summary of Measures to demonstrate the effectiveness of Internal Audit – 2013-14 Review**

| <b>Measure</b>  | <b>Finding</b>  |
|---|---|
| The extent to which reliance can be placed on the work of internal audit by the external auditor. | In the Audit Plan for Tonbridge & Malling Borough Council for the year ended 31 March 2014 Grant Thornton stated:<br><i>Overall we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.</i><br><i>Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</i> |

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

#### Report of the Chief Internal Auditor

#### Part 1- Public

#### Matters for Information

#### 1 ANNUAL INTERNAL AUDIT REPORT 2013-14

**This report informs Members of the Internal Audit work completed during 2013-14, detailing how resources have been allocated and outturn against performance measures.**

#### 1.1 Background to Internal Audit

1.1.1 The Accounts and Audit Regulations 2011 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.”

1.1.2 From the 2013-14 financial year, proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA’s Local Government Application Note to the Public Sector Internal Audit Standards. The PSIAS requires Internal Audit to report periodically to senior management and Members on the internal audit activity’s purpose, authority, responsibility and performance relative to its plan. The PSIAS also require the Chief Audit Executive of Public Sector organisations to “deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.”

#### 1.2 Internal Audit Staff Establishment

1.2.1 The Internal Audit Team report to the Chief Internal Auditor and consists of the Audit Manager, a Senior Auditor post and an Audit Assistant post. The Senior Auditor post was held by two officers in a job-share; on 31 January 2014 one of the officers left the Council’s employment.

1.2.2 The Audit Manager post is shared with Gravesham Borough Council with the officer splitting her time equally between the two councils.

### 1.3 Net Staff Out-turn

- 1.3.1 Net staff resources available for the year **[Annex 1]** amounted to 665 days. The team has recorded fourteen days of sickness absence in the year; this figure includes time taken by officers to attend medical appointments.

### 1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2013-14 was presented to Management Team on 12 March 2013 and was approved by the Audit Committee on 8 April 2013 and is attached at **[Annex 2]** for Members information. The plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.4.2 *Assurance Work* – this relates to audit work which informs the opinion of the control environment given to the Committee by the Chief Internal Auditor. This work focuses on planned audit review of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- 1.4.3 *Consultancy Work* – this relates to Internal Audit team members involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in fraud investigation work.
- 1.4.4 The team completed 97.56% of the plan during the year against a target of 95% completion. The audit not completed was deferred until the beginning of the 2014-15 year at the request of management.

### 1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work. **[Annex 1]** reports that a total of 392 audit days have been spent on the completion of assurance work in 2013-14. This included days allocated to finalising audits commenced during the 2012-13 financial year. Further details of the planned audit work completed during the year are shown in **[Annex 3]**. Where an assurance review has been given an audit opinion, definitions in use during 2013-14 are detailed at **[Annex 4]** of this report.
- 1.5.2 For Members information, **[Annex 3]** also provides an update on progress made against the 2014-15 Internal Audit plan to date.
- 1.5.3 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and agreed with client management prior to finalising the report. Internal Audit follow-up on recommendations agreed and have an escalation process in place that ultimately results in reporting to Management Team and this Committee should a key control weakness remain.

- 1.5.4 While 100% of all recommendations followed-up in 2012-13 were found to have been satisfactorily addressed, the proportion has fallen for 2013-14 to 93.3%. Internal Audit has put into place arrangements to report to Management Team on a quarterly basis, providing details of all recommendations due and responses received from management; it is anticipated this process will result in a higher proportion of recommendations being addressed within the agreed timescales in future.
- 1.5.5 Over 110 audit recommendations were made from assurance work in 2013-14 demonstrating that internal audit continues to make a significant number of recommendations for change within the organisation as a contribution to improving the internal control arrangements of the Council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.
- 1.5.6 The assurance work of the team conducted during the year has contributed to the internal control environment of the Council being maintained and improved, council resources being more effectively used and a reduction in waste from fraud or error.

## **1.6 Consultancy Work**

- 1.6.1 The Internal Audit team spent a total of 74 days on consultancy work during 2013-14; this time was allocated to the following areas of work:

### *Specific Consultancy Reviews at the request of the Council's Management Team*

- 1.6.2 The 2013-14 Internal Audit Plan included an allowance of 90 days (inclusive of audit management resources) for conducting Value for Money / Efficiencies work as directed by the Council's Management Team. The team has supported the Council's Scrutiny Review programme, conducting research and analysis to support two specific reviews which have been reported through the Council's Management Team and Overview and Scrutiny Committee.
- 1.6.3 When one of the Senior Auditors left the Council in January 2013, It was agreed with the Director of Finance & Transformation that the team would not do any more specific corporate consultancy projects, and would instead use the remaining resources available to complete the assurance audit reviews on the plan; as such it was not necessary to formally revise the plan despite reducing the level of available audit resource.

### *Projects, Responsive Work and Advice & Information*

- 1.6.4 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. In 2012-13 the team

introduced arrangements to record the nature and volume of requests received to enable more detailed monitoring and reporting in future years.

- 1.6.5 During the 2013-14 year the team has provided support to five such projects, primarily through the extraction and analysis of data. Details of the specific items are provided at **[Annex 5]**. This is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the Council.
- 1.6.6 The team offer ad hoc advice and information as and when requested by council officers and responded to 36 requests for such advice throughout the year. This is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the council.
- 1.6.7 Anti-fraud activity
- 1.6.8 The Internal Audit team plays a key role in the Council's anti-fraud activity and have spent 46 days on this type of work in 2013-14.
- 1.6.9 The team has led on the investigation of the matches received through the 2013-14 National Fraud Initiative (NFI). The team have continued to play a key role in the Council's corporate approach to the prevention and investigation of allegations of fraud, corruption and misconduct where appropriate. In September 2013, a Fraud Awareness e-learning package was distributed to all staff which is designed to enhance awareness of fraud risks and the reporting arrangements across the Council. In addition Internal Audit resources were spent carrying out a proactive fraud-proofing review of the Council's Recruitment Vetting Arrangements and details of this are provided within **[Annex 3]** of this report.

## **1.7 Other Audit Duties**

- 1.7.1 The time spent on other audit duties was devoted to planning and controlling the work of the section, internal audit development, general administration and the provision of support to wider Council activities.
- 1.7.2 The team has continued to be represented on the Kent Audit Group and was responsible for organising the 2013 Kent Audit Group Conference.

## **1.8 Training**

- 1.8.1 A total of five days has been spent on formal training in 2013-14 including attendance on Emergency Planning and Individual Elector Registration sessions. All members of the team attended the 2013 Kent Audit Group Conference which included training sessions Lean audit methodologies and the Data Protection Act.

1.8.2 In addition to formal training, the Chief Internal Auditor and the Audit Manager continue to provide each team member with specific training during the course of each audit undertaken in response to each auditor's particular needs. It is considered that this approach has been effective in practice and has contributed to the continuation of the quality of audit reviews carried out by the team.

## **1.9 Performance Measures**

1.9.1 The Internal Audit team is measured against a set of seven performance measures which are intended to assess the effectiveness and efficiency of the team in achieving a quality Internal Audit Service.

1.9.2 For 2013-14 the team has achieved the target set against all of the indicators measured. Actual performance of the team against these measures is provided for Members information at **[Annex 6]**.

## **1.10 General Internal Audit Development**

1.10.1 The Accounts and Audit Regulations 2011 require authorities to review the effectiveness of their internal audit arrangements. The Chief Internal Auditor has worked with Senior Management to meet the requirements of this review, the findings of which will be presented to the Audit Committee elsewhere on this agenda.

## **1.11 Partnership Working**

1.11.1 Since 1 December 2010 the Council has operated a partnership arrangement whereby operational management responsibility for the Internal Audit team at Tonbridge & Malling Borough Council is provided by the Audit Manager employed by Gravesham Borough Council.

1.11.2 A formal review of the partnership was carried out in July 2013 by the two Councils; this found the partnership to be working well and achieving the objectives identified within the original business case for the partnership.

## **1.12 Biannual Client Satisfaction Survey**

1.12.1 The biannual survey of Internal Audit clients was carried out in March 2013 to provide an assessment of the current Internal Audit Service, establish current levels of client satisfaction and to identify areas for future service development and enhancement.

1.12.2 The survey was issued to 32 Directors, Service Managers and Senior Managers within the Council. Responses received provided positive assurance that the Council is receiving an effective audit service, whilst also identifying opportunities to develop the service further.

### **1.13 Public Sector Internal Audit Standards**

- 1.13.1 From 1 April 2013 the team have worked to the Public Sector Internal Audit Standards (PSIAS) for the UK Public Sector and CIPFA's Local Government Application Note to the Standards; together forming proper practice for Internal Audit in Local Government. In July 2013, the Chief Internal Auditor conducted a self-assessment against the Standards; the results of which were reported to the Audit Committee in September 2013.
- 1.13.2 A self-assessment conducted in May 2014 confirmed that the team are now considered to be working in compliance with the PSIAS. One action remains; Internal Audit teams are required to be externally assessed against the PSIAS once in a five-year period. Consideration is currently being given to scheduling an assessment in the 2015-16 financial year.

### **1.14 Internal Audit Summary**

- 1.14.1 The team has provided the Council with an effective internal audit service during the year and responded well to the evolving needs of the Council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have delivered against target on the audit plan and played a key role in maintaining the governance and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.
- 1.14.2 Partnership working arrangements with Gravesham Borough Council have successfully continued, facilitating service developments as well as an ongoing cost saving for the Council.
- 1.14.3 Individual team members continue to be exposed to a variety of work requests and have responded enthusiastically and positively to this whilst ensuring that a high standard of audit work is completed by the team. This enabled the Chief Internal Auditor to deliver the opinion in April 2014 that Tonbridge & Malling Borough Council's system of internal control makes a positive contribution to the proper, economic, efficient and effective use of resources in achieving the Council's objectives.
- 1.14.4 During the forthcoming year the team will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the Council.

### **1.15 Legal Implications**

- 1.15.1 The Accounts and Audit Regulations 2011 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 relative to the 2013-14 financial year is defined as that contained within the Public Sector Internal Audit



Standards (PSIAS) and the Local Government Application Note to the PSIAS, published by CIPFA.

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

1.16.1 There are no direct financial implications from this report.

### **1.17 Risk Assessment**

1.17.1 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.

Background papers:

Nil

contact: Katey Arrowsmith  
Audit Manager

David Buckley  
Chief Internal Auditor

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**Internal Audit Staff Resources - 1 April 2013 to 31 March 2014**

| Actual  | <u>Days</u> | <u>Days</u>       |
|---|-------------|-------------------|
| Gross days available in period                                      | 574         |                   |
| Less: Bank Holidays   | 18          |                   |
| Plus: Partnership - Audit Manager days                              | 109         |                   |
| <b>NET WORKDAYS AVAILABLE TO INTERNAL AUDIT</b>                     |             | <b>665</b>        |
| <br><i><u>Less</u></i>  |             |                   |
| Annual Leave  | 72          |                   |
| Sick Leave  | 14          |                   |
| Training  | 5           |                   |
| Vacancies   | 21          |                   |
|   |             | 112               |
| <b>AVAILABLE AUDIT DAYS</b>   |             | <b><u>553</u></b> |
| <br><i><u>Apportioned Available Days</u></i>                        |             |                   |
| <b><u>Assurance Work</u></b>  |             |                   |
| <i>Key financial systems</i>  | 121         |                   |
| <i>Other financial systems</i>                                      | 84          |                   |
| <i>Control environment reviews</i>                                  | 167         |                   |
| <i>Audit follow up work</i>   | 20          |                   |
|   |             | 392               |
| <br><b><u>Consultancy Work</u></b>                                  |             |                   |
| <i>Corporate and other known project work</i>                       | 14          |                   |
| <i>Responsive project work (including advice &amp; information)</i> | 14          |                   |
| <i>Anti-fraud activity</i>  | 46          |                   |
|   |             | 74                |
| <i>Other Audit Duties</i> *   |             | 87                |
|   |             | <b><u>553</u></b> |

\* Other audit duties include audit planning, supervision, administration and development and formal reporting to the Audit Committee.

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| No  | No | Area of Audit Focus  | Allocation of Audit Days | Proposed Scope   |
|---|----|--|--------------------------|--|
| <b>ASSURANCE WORK</b>                     |    |  |                          |  |
| <b><u>Key Financial Systems</u></b>       |    |  |                          |  |
| 1   | 1  | Creditors  | 7                        | Review of the council's creditor payment process including arrangements to mitigate the risk of mandate fraud.   |
| 2   | 2  | Debtors  | 7                        | Review of the administration and recovery of the council's sundry debtors.   |
| 3   | 3  | Bank Reconciliation  | 5                        | Review of the council's bank reconciliation arrangements.  |
| 4   | 4  | Payroll  | 10                       | Review of the council's arrangements to pay staff salaries.  |
| 5   | 5  | Council Tax Administration & Recovery                                    | 12                       | Review of the council's arrangements to administer and recover Council Tax liabilities including discounts / exemptions and arrangements to mitigate fraud risk.   |
| 6   | 6  | Local Support for Council Tax  | 10                       | Review of the administration of the new Local Support for Council Tax Scheme.  |
| 7   | 7  | NNDR Administration & Recovery   | 10                       | Review of the council's arrangements to administer and recovery NNDR liabilities in the borough.   |
| 8   | 8  | Leisure Services Business Unit Income Collection                         | 7                        | Review of arrangements to collect income across the sites of the Leisure Services Business Unit focussing on the key financial controls.   |
| 9   | 9  | Car Parking Income   | 12                       | Review of the arrangements to collect income from the council's car parks and on-street parking spaces.  |
| 10  | 10 | Housing Benefits - Assessment, Interventions & Reviews.                  | 10                       | Review of arrangements to process claims for Housing Benefit, including arrangements for interventions and reviews.  |
| 11  | 11 | Housing Benefits - Overpayments Management                               | 12                       | Review of the council's arrangements to recovery overpaid Housing Benefit  |
| 7   |    |  | <b>102</b>               |  |
| 8   |    |  |                          |  |
| 9   |    |  |                          |  |
| 10  |    |  |                          |  |
| 11  |    |  |                          |  |
| 12  |    |  |                          |  |
| <b><u>Other Financial Systems</u></b>     |    |  |                          |  |
| 12  | 12 | Benefit Investigations   | 7                        | Review of the council's arrangements to investigate Benefit Fraud.   |
| 13  | 13 | Grant Claims   | 10                       | Review of arrangements to pay grants to other organisations including Parishes.  |
| 14  | 14 | Parking Enforcement - Penalty Charge Notice Recovery                     | 10                       | Review of arrangements to recover Penalty Charge Notices.  |
| 15  | 15 | Car Parking Permits  | 7                        | Review of arrangements to administer parking permits.  |
| 16  | 16 | Discretionary Housing Payments   | 10                       | Review of arrangements to administer Discretionary Housing Payments.   |
| 17  | 17 | Concessions  | 10                       | Review of arrangements to manage income in respect of the council's concessions including those in the Country Parks and Poulton Wood.   |
| 14  |    |  | <b>54</b>                |  |
| 15  |    |  |                          |  |
| 16  |    |  |                          |  |
| <b><u>Control Environment Reviews</u></b> |    |  |                          |  |
| 18  | 18 | Commercial Food Safety Regulation  | 5                        | Review of arrangements to conduct food safety inspections and deal with non-compliance with regulations in the borough's food establishments.  |
| 19  | 19 | Refuse Collection, Recycling, Street Cleansing and Grounds Maintenance   | 15                       | Review of arrangements to manage the council's refuse, recycling, street cleansing and grounds maintenance contracts.  |
| 20  | 20 | Data Protection  | 12                       | Review of the council's arrangements to ensure the security of data including a review of Data Protection statements/declarations on council application forms.  |
| 21  | 21 | Planning Applications  | 12                       | Review of arrangements to process planning applications.   |
| 22  | 22 | IT Asset Management  | 10                       | Review of arrangements to manage IT Assets including maintenance of the IT Asset Register.   |
| 23  | 23 | Mobile Telephones  | 10                       | Review of arrangements in place for the provision of mobile phones and reimbursement of costs relating to business use, including repayment of private usage. In addition to the control assurance work, the review will also provide consultancy services to consider opportunities to enable smarter working through provision of mobile technology. |
| 24  | 24 | Asset Management   | 10                       | Review of arrangements to manage the council's assets including maintenance of the Asset Register.   |
| 25  | 25 | Youth & Play Development - Income Collection                             | 7                        | Review of arrangements to collect and bank income in respect of the Youth & Play Development Schemes.  |
| 26  | 26 | Personal & Premises Licensing  | 10                       | Review of arrangements in place to administer Personal and Premises Licenses.  |
| 27  | 27 | Events Management  | 7                        | Review of Events Management arrangements based on the Tonbridge Taster Event. In addition to control assurance, Internal Audit will provide advice and support to the project group in advance of the event, and will conduct a Post Implementation Review following the project.  |
|   |    |  | <b>98</b>                |  |
| 28  | 28 | <b>Audit Follow Up Work</b>  | <b>15</b>                | Allowance for conducting follow-up of high priority recommendations and reviews where an opinion of Minimal is given.  |
| <b>CONSULTANCY WORK</b>                   |    |  |                          |  |
| 29  | 29 | <b><u>Corporate Consultancy Work</u></b>                                 | <b>90</b>                | Allowance for conducting VfM / Efficiencies work as directed by Management Team (day allocation includes Audit Management days)  |
| <b><u>Other Known Project Work</u></b>    |    |  |                          |  |
| 30  | 30 | Electoral Registration - Introduction of Individual Elector Registration | 12                       | Allowance for the provision of support to the council's working group on the introduction of Individual Elector Registration.  |
| 31  | 31 | Welfare Reform   | 5                        | Allowance for the provision of support to the council's working group on Welfare Reform.   |
| 32  | 32 | Future Delivery of Leisure Facilities                                    | 10                       | Allowance for the provision of support for the council's working group to arrange the future delivery of Leisure facilities in the borough.  |
| 33  | 33 | Town Centre Regeneration   | 15                       | Allowance for the provision of support to the council's working group on Town Centre Regeneration.   |
| 34  | 34 | Kent Waste Partnership Refuse & Recycling Review                         | 5                        | Allowance for the provision of support to the council's working group reviewing the Recycling & Waste Management options for provision after the current contract term.  |
|   |    |  | <b>47</b>                |  |
| 34  |    |  |                          |  |
| 35  |    |  |                          |  |
| <b><u>Anti-Fraud Activity</u></b>         |    |  |                          |  |
| 36  | 35 | Investigation Work   | 20                       | Allowance for conducting special investigation work.   |
| 37  | 36 | Recruitment Vetting Procedures   | 12                       | Proactive review of the council's arrangements to ensure staff recruited are subject to appropriate verification checks to reduce the risk of employment fraud.  |
| 38  | 37 | National Fraud Initiative 2012-13  | 5                        | Co-ordination of the council's response to the 2012-13 full NFI exercise.  |
| 38  | 38 | National Fraud Initiative 2013-14  | 2                        | Preparation and submission of data for the 2013-14 Single Person Discount Fraud exercise.  |
|   |    |  | <b>39</b>                |  |
| 39  | 39 | <b>Consultancy Services</b>  | <b>7</b>                 | Allowance for the provision of consultancy services unknown at the time of planning.   |
| 40  | 40 | <b>Responsive Work</b>   | <b>7</b>                 | Allowance for the provision of responsive support to the council during the financial year.  |
| 41  | 41 | <b>Advice and Information</b>  | <b>7</b>                 | Allowance for the provision of control advice and information to the council during the year.  |
|   |    |  | <b>466</b>               |  |

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## Audit reviews from 2012-13 plan finalised in 2013-14

| <b>Audit Review Title</b>                                      | <b>Planned Quarter</b> | <b>Status</b>  | <b>Audit Opinion</b> | <b>Scope of Audit and Findings</b>  |
|--|------------------------|--|----------------------|---|
| <i>Payment Card Industry Data Security Standards (PCI DSS)</i> | <i>1</i>               | <i>Final Report Issued</i>   | <i>---</i>           | <i>The audit provided consultancy advice on the Council's compliance with PCIDS requirements, including cost associated with self or external assessments, and arrangements to securely store and destroy payment card details.</i> |
| <i>Payroll</i>   | <i>4</i>               | <i>Final Report Issued</i>   | <i>Substantial</i>   | <i>The audit found that that key controls are in place and operating effectively over the payroll function of the authority.</i>  |
| <i>Fighting Fraud Locally Compliance</i>                       | <i>4</i>               | <i>Completed</i>   | <i>---</i>           | <i>The audit provided consultancy advice to identify the extent to which the Council's counter fraud arrangements comply with the Fighting Fraud Locally Strategy and identify opportunities to further enhance arrangements.</i>   |
| <i>Complaints Handling</i>                                     | <i>2</i>               | <i>Completed</i>   | <i>Limited</i>       | <i>The audit found that there are adequate arrangements in place for a response to be prepared for complaints received however these arrangements were not consistently applied in line with the Council's policy in practice.</i>  |
| <i>Data Protection Statements/Declarations</i>                 | <i>4</i>               | <i>Postponed to 2013-14 plan at the request of the Chief Executive</i> | <i>---</i>           |   |

## 2013-14 Audit Plan Assurance Work

| Audit Review Title         | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|----------------------------|-----------------|----------------------------|---------------|---|
| <i>Car Parking Income</i>  | 1               | <i>Final report issued</i> | <i>Amber</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate arrangements exist to ensure the regular collection of money from the council's parking meters. The audit found that the Council's contractor is making cash collections in line with the contract. Opinion: Green.</i></p> <p><i>RMO2 – There are adequate arrangements in place to manage the council's parking meters. The audit found the Council has a contract in place with the supplier to maintain the parking meters, however opportunities were identified to enhance the recording and monitoring of repairs requested to ensure faults with meters are rectified within the timescale specified in the contract. Opinion: Amber.</i></p> <p><i>RMO3 – Income received through the Council's parking meters, season tickets and pay by mobile is verified, recorded and banked effectively. The audit found that arrangements are in place for income to be banked and recorded on the Council's ledger, however it was recommended that a reconciliation process be implemented to confirm the Council receives the correct amount from Park Mobile in respect of usage of the Pay By Mobile service. Opinion: Amber.</i></p> |
| <i>IT Asset Management</i> | 1               | <i>Final report issued</i> | <i>Amber</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate policies and procedure notes exist to support the procurement of IT Assets. The Council has set out appropriate policies and procedure notes to support the procurement of IT Assets, however the Council does not have a contract in place with an IT equipment supplier; while work is underway to procure a new contract equipment is procured through a framework agreement. Opinion: Amber.</i></p> <p><i>RMO2 – The process for acquiring and recording IT Assets is appropriate. The audit found that arrangements are in place for all IT assets to be recorded on a register though opportunities to enhance records relating to equipment used by staff working from home were identified. Opinion: Amber.</i></p>   |



| Audit Review Title       | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|--------------------------|-----------------|----------------------------|---------------|---|
|                          |                 |                            |               | <i>RMO3 – The accounting of IT Assets in respect of renewals, disposals and depreciation is adequate. The audit found that arrangements are in place for the renewal of IT assets and for the secure disposal of equipment that has reached the end of its useful life and for this to be accurately accounted for though opportunities to improve records relating to disposals were identified. Opinion: Amber.</i>   |
| <i>Mobile Telephones</i> | <i>1</i>        | <i>Final report issued</i> | <i>Red</i>    | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Provision of mobile phones is adequately documented and administered. The audit found that the Council does not have a formal policy in place to support the provision of mobile phones to staff and weaknesses were identified in the arrangements to maintain an inventory. Opinion: Red.</i></p> <p><i>RMO2 – Costs are adequately administered. The audit found that arrangements to pay and recharge services for mobile phones are effective however arrangements to monitor usage are weak. Opinion: Red.</i></p> <p><i>RMO3 – Allowances given towards use of private mobile phones are appropriately administered. While there is no formal policy in place in respect of allowances for business use of private mobile phones, the audit found arrangements to pay the allowance were adequate. Opinion: Amber.</i></p> <p><i>It should be noted that the audit testing conducted did not identify any instances of misuse/ abuse of mobile phones provided. The weaknesses identified are not considered to represent a significant governance issue as the financial risk is relatively small (representing a total expenditure less than 10% of the Council's triviality threshold for the Statement of Accounts) and the function is not key to the achievement of any of the council's objectives.</i></p> <p><i>Action was taken by management to address the weaknesses identified in the audit immediately after the issue of the report; the report was considered by Management Team, a review of all mobile contracts has been carried out and a draft policy prepared. Internal Audit will continue to monitor progress against the recommendations agreed.</i></p> |

| Audit Review Title   | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)  |
|--|-----------------|----------------------------|---------------|--|
| <i>Recruitment Vetting Procedures – Counter Fraud Review</i> | 1               | <i>Final report issued</i> | Red           | <p><i>The audit considered the Council’s arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate recruitment vetting procedures exist to reduce the risk of employment fraud both internally and externally. The audit found that evidence of identification, right to work and qualifications is not routinely saved. This does not mean that checks were not carried out, however assurance could not be provided that these checks are taking place in practice. As such it was recommended that evidence should be retained on personnel files of successful applicants. In addition arrangements to verify the identity, right to work and qualifications of staff procured through Recruitment Agencies were found to be weak with records maintained by individual services not Personnel. Opinion: Red. It should be noted that the review did not identify any instances of fraud, false employment records and all staff required to hold professional qualifications were confirmed as current members of the appropriate bodies.</i></p> <p><i>Action was taken by management to address the weaknesses identified in the audit immediately after the issue of the report; the report was considered by Management Team and responsibilities of Personnel and recruiting managers have been clarified in instructions to staff. Internal Audit will continue to monitor progress against the recommendations agreed.</i></p> |
| <i>Grant Claims</i>  | 3               | <i>Final report issued</i> | Green         | <p><i>The audit considered the Council’s arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate policies and procedure notes exist to support the payment of grant claims and Parish Precepts. Audit testing confirmed appropriate policies and procedures are in place. Opinion: Green.</i></p> <p><i>RMO2 – Adequate records are maintained of all grants, Parish Precepts and financial arrangements with Parish Councils that have been approved and are to be paid. Audit testing confirmed that appropriate records including Member approvals exist to support payments to Parish Councils. Opinion: Green.</i></p>  |

| Audit Review Title      | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)  |
|-------------------------|-----------------|----------------------------|---------------|--|
| <i>Asset Management</i> | 1               | <i>Final report issued</i> | <i>Amber</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate records are maintained of all the Council's land and property holdings in respect of fixed assets. The audit found that the council has an asset register in place and arrangements in place for this to be maintained, and for income in respect of rents and leases of council properties to be recovered through the council's Debtors system. The audit recommended that these arrangements be supported by the production of an Asset Management Plan and for records of rental/lease income due to be streamlined and digitised. Opinion: Amber.</i></p> <p><i>RMO2 – Reviews are carried out of property holdings in light of changing operational needs and market opportunities. The audit found arrangements in place for assets to be reviewed and re-valued on a rolling programme in line with professional guidance. The reviews have resulted in the rationalisation of assets held including the lease of office space to Kent Police; audit testing however identified delays in the invoicing arrangements. Opinion: Amber.</i></p> <p><i>RMO3 – Valuations, acquisitions, sales and leases are appropriately dealt with obtaining the best terms for the Council. Audit testing identified weaknesses in the process for administering Periodical Income Accounts (the functionality within the Debtors system that allows for automated billing in line with lease/rental agreements), variances between rental/lease agreement details held in Finance and Estates Management, and the accurate and timely application of RPI increases. Opinion: Red.</i></p> <p><i>RMO4 – There is an effective estates management service. The review found that the Council's Estates Team are appropriately qualified and experienced, with arrangements in place to ensure the team are kept up to date on best practice; the review recommended that procedure notes be prepared to support officers in the more complex and less frequently applied processes. Opinion: Amber.</i></p> |

| <b>Audit Review Title</b>                                      | <b>Planned Quarter</b> | <b>Status</b>              | <b>Audit Opinion</b> | <b>Scope of Audit and Findings (where finalised)</b>  |
|--|------------------------|----------------------------|----------------------|---|
| <i>Leisure Services Business Unit (LSBU) Income Collection</i> | <i>1</i>               | <i>Final report issued</i> | <i>Green</i>         | <i>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):<br/>RMO1 – Cashing up and banking procedures are adequately controlled across all LSBU sites and cash is adequately collected and verified. This audit examined income records from the LSBU during the period 1 April – 31 October 2013 prior to the Leisure Trust as these figures will feed the Council's Financial Statements for the 2013-14 financial year. The review found that key controls were in place and working effectively with income receipted, banked and recorded on the general ledger accurately and on a timely basis. Opinion: Green.</i>   |
| <i>Parking Enforcement - Penalty Charge Notice Recovery</i>    | <i>2</i>               | <i>Final report issued</i> | <i>Amber</i>         | <i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):<br/>RMO1 – Adequate policies and procedure notes exist in relation to recovery of Penalty Charge Notices (PCNs). Audit testing found that the Council works to a Parking Recovery Policy within the Corporate Debt Recovery Policy with arrangements to ensure Civil Enforcement Officers are adequately trained. The review recommended that comprehensive procedure notes be prepared to support the administration of the service. Opinion: Amber.<br/>RMO2 – Appropriate procedures are in place to calculate, agree, issue and recover PCN charges. The audit found that there are arrangements in place for Penalty Charge Notices to be accurately calculated and appropriately issued, with recovery a combination of automated system actions and where this is not successful, manual officer intervention. Audit testing of cases subject to recovery action found that all cases are progressed through the stages set out in the policy however some delays in the later stages of recovery were identified. Opinion: Amber.</i> |
| <i>Council Tax Reduction Scheme</i>                            | <i>2</i>               | <i>Final Report Issued</i> | <i>Green</i>         | <i>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):<br/>RMO1 – An appropriate scheme and effective process has been adopted following the introduction of the Council Tax Reduction Scheme (CTRS). The review found that the Council Tax Reduction</i>  |

| Audit Review Title                    | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|---------------------------------------|-----------------|----------------------------|---------------|---|
|                                       |                 |                            |               | <i>Scheme implemented at Tonbridge &amp; Malling Borough Council had been developed, publicised and implemented in line with the Government guidance. Audit testing also confirmed that the system parameters had been appropriately set to ensure the reduction is accurately calculated and applied to accounts, with recovery parameters adjusted to ensure outstanding liabilities are recovered. Opinion: Green.</i>   |
| <i>Discretionary Housing Payments</i> | 2               | <i>Final report issued</i> | <i>Red</i>    | <i>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):<br/>RMO1 – There are appropriate arrangements in place for administering Discretionary Housing Payments (DHPs). The review found that the council has a policy in place in respect of DHPs which sets out arrangements for applications to be considered and awarded on the Northgate Benefits System. Audit testing found weaknesses in the process that had resulted in two cases that had been paid a DHP though they were not eligible in line with the Council's policy (though not in defiance of the guidance from the Department for Work &amp; Pensions which is less specific); in addition one of these cases had been paid in duplicate. Audit testing also identified opportunities to strengthen controls and improve the accuracy and consistency of record-keeping, authorisation of determinations made on applications for DHPs and clarification of the appeals process. Opinion: Red.<br/>It should be noted that management have responded positively to the review and were taking steps to improve controls during the audit review process.</i> |
| <i>Concessions</i>                    | 3               | <i>Final Report Issued</i> | <i>Amber</i>  | <i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):<br/>RMO1 – Adequate records are maintained of all concessions with the Council. Audit testing found that there are arrangements in place to maintain records of all concessions held though opportunities to enhance and update these were identified. Opinion: Green.<br/>RMO2 – Leases/agreements are appropriately dealt with obtaining</i>  |

| Audit Review Title                           | Planned Quarter | Status              | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|--|-----------------|---------------------|---------------|---|
|  |                 |                     |               | <p><i>the best terms for the Council. The audit found that appropriate processes have been followed in the selection of contractors for concessions with details of decisions reported to Members. Audit testing identified delays in the invoicing of concession holders and errors in the application of VAT codes with recommendations agreed to address these. Opinion: Amber.</i></p> <p><i>RMO3 – All concession lease/agreements are being monitored. There are arrangements in place for relevant officers across the council to meet regularly to monitor the operation of the concessions and that while some concessions have been subject to a Council inspection, there are no formal arrangements for ongoing inspections though a schedule was being prepared during the course of the audit. Opinion: Amber.</i></p> <p><i>RMO4 – Potential for other future concessions has been considered. Audit testing found that opportunities to introduce additional concessions have been explored; there has been no interest from potential operators however this is kept under review. Opinion: Green.</i></p> |
| Youth & Play Development - Income Collection | 2               | Final Report Issued | Green         | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – There are adequate processes in place to ensure that all income streams for the Activate, Y2 Crew and Playscheme for Summer 2013 are secure. Audit testing identified a couple of issues regarding receipts, recording the payment type and requiring the Leisure pass to be amended with recommendations agreed to address these. Opinion: Amber.</i></p> <p><i>RMO2 – There are adequate processes in place to ensure that the schemes are strictly controlled in line with Ofsted guidance. Audit testing found these processes were sufficient. Opinion: Green.</i></p> <p><i>RMO3 – There are adequate procedures in place to ensure that staff are aware of the risks associated with the management of the schemes. The audit found adequate policies, procedures and inspections or reviews carried out of the venues. Opinion: Green.</i></p> <p><i>RMO4 – There is sufficient public liability and employer's liability</i></p>   |

| Audit Review Title                                       | Planned Quarter | Status                     | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|--|-----------------|----------------------------|---------------|---|
|  |                 |                            |               | <p><i>insurance which was seen and agreed to be in place. Opinion: Green.</i></p> <p><i>RMO5 – The schemes are monitored to achieve savings. The audit found changes had been made shorten the schemes and moves have been made to offer electronic payments systems where feasible. Opinion: Green.</i></p>  |
| <i>Planning Applications</i>                             | 2               | <i>Final report issued</i> | <i>Amber</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Adequate procedures have been adopted for the administration of planning applications. Audit testing identified key controls to be in place effectively through the planning applications process. Identified that stronger control should be in place in respect of planning officers declaring interest in particular applications. Opinion: Amber.</i></p> <p><i>RMO2 – Adequate processes exist in relation to handling and banking of development control payments. The audit found strong banking, handling and payment controls in place. Opinion: Green.</i></p>  |
| <i>NNDR Administration &amp; Recovery</i>                | 4               | <i>Final Report Issued</i> | <i>Green</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</i></p> <p><i>RMO1 – Arrangements are in place to identify, record and reconcile chargeable properties within the borough. Audit testing found all arrangements to be appropriate. Opinion: Green.</i></p> <p><i>RMO2 – Charges placed upon properties are in line with the relevant legislation and transactions are appropriately recorded. The audit found most key controls to be working effectively, with a weakness found surrounding the recording of refunds on Northgate. Opinion: Amber.</i></p> <p><i>RMO3 – Arrangements are in place to identify and recover unpaid NNDR liabilities. Arrangements were found to be appropriate. Opinion: Green.</i></p> |
| <i>Refuse Collection, Recycling and Street Cleansing</i> | 3               | <i>Final Report Issued</i> | <i>Green</i>  | <p><i>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</i></p> <p><i>RMO1 – Appropriate controls exist to ensure that the Refuse Collection, Recycling and Street Cleansing contracts are monitored</i></p>   |

| Audit Review Title                    | Planned Quarter | Status                       | Audit Opinion | Scope of Audit and Findings (where finalised)  |
|---------------------------------------|-----------------|------------------------------|---------------|--|
|                                       |                 |                              |               | <i>and managed effectively to ensure that the council's obligations are delivered. Audit testing found all key functions to be working well with the Council meeting both its statutory and contractual obligations. Additional monitoring of missed bins was found to be in need, which requires Waste Services to liaise with IT Services. Opinion: Green.</i>   |
| Council Tax Administration & Recovery | 4               | Final Report Issued          | Amber         | The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – Effective controls are in place for the proper administration of Council Tax. Audit testing found key controls regarding the administration of Council Tax to be effective. Opinion: Green.<br>RMO2 – Effective recovery procedures are in place for the collection of Council Tax debt. The audit found recovery arrangements to be adequate, with a weakness found at the point at which debts are returned from the bailiff. Opinion: Amber. |
| Payroll                               | 4               | Final report issued          | Green         | The audit considered the Council's arrangements in respect of the following risk management objective (RMO):<br>RMO1 – Adequate controls are in place for the effective operation of the council's Payroll function. Audit testing found key controls working consistently and effectively throughout the Payroll function. One weakness was identified whereby monthly verification emails were not always responded to in order to clarify the staff for inclusion within the current pay run. Opinion: Green.   |
| Events Management                     | 3               | Consultancy report finalised | N/A           | The review identified opportunities to further enhance the management of future events by analysing the management and experiences of the Taste of Tonbridge day.  |
| Debtors                               | 3               | Final report issued          | Amber         | The audit considered the Council's arrangements in respect of the following risk management objective (RMO):<br>RMO1 – Effective key controls are in place to manage the council's Debtors system. Audit testing confirmed that appropriate key controls are in place though instances were identified where controls had not been complied with; recommendations were made in respect of action taken when debts are returned from debt   |



| Audit Review Title                | Planned Quarter | Status              | Audit Opinion | Scope of Audit and Findings (where finalised)  |
|-----------------------------------|-----------------|---------------------|---------------|--|
|                                   |                 |                     |               | collectors, audit trails where recovery action is withdrawn and reminders for all staff of their responsibilities when raising debtor invoices. <i>Opinion: Amber.</i>   |
| Commercial Food Safety Regulation | 3               | Final report issued | Green         | The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – There are plans, policies and procedures in place as required by the food safety legislation and guidance. The audit found these to be in place with just some minor amendments/updates to the policies required. <i>Opinion: Green.</i><br>RMO2 – There are arrangements in place to carry out effective food safety inspections and enforcement activity in the Borough. The audit found that appropriate arrangements are in place with inspections carried out in line with agreed priorities. <i>Opinion: Green.</i>   |
| Benefit Investigations            | 2               | Final Report Issued | Amber         | The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – The Investigations Team work to policies and procedure notes that are in line with guidance and legislation. Testing found appropriate policies in place however limited procedure notes to demonstrate changes in working practices. <i>Opinion: Amber.</i><br>RMO2 – Arrangements are in place to investigate benefit fraud referrals. Audit testing confirmed investigation processes are in place and working effectively, however an issue was identified whereby the originator of referrals made through the form on the Council's website could be identified despite offering anonymity to users. <i>Opinion: Amber.</i><br>RMO3 – Arrangements are in place to conduct compliance work to help ensure benefit changes of circumstances result in updating benefit cases. Audit testing confirmed appropriate arrangements are in place and effective for compliance work to be carried out, however a full audit trail is not always retained to track that all cases are being dealt with. <i>Opinion: Amber.</i><br>RMO4 – Arrangements are in place to proactively prevent and detect fraud. Appropriate arrangements are in place including |

| Audit Review Title                      | Planned Quarter | Status              | Audit Opinion | Scope of Audit and Findings (where finalised)   |
|---|-----------------|---------------------|---------------|---|
|   |                 |                     |               | liaison with DWP and participation in the NFI, however full records of this work are not currently maintained. <i>Opinion: Amber.</i>   |
| Housing Benefit Overpayments Management | 4               | Final Report Issued | Amber         | <p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Appropriate and timely action is taken to recover all Housing Benefit Overpayments. Audit testing found compliance with key controls in this area to have significantly improved since previous audit reviews with recovery action more closely in line with the policy in place. Recommendations to review and update the policy and further enhance administration arrangements were identified. <i>Opinion: Amber.</i></p> <p>RMO2 – There are effective performance monitoring arrangements in place in respect of overpayments. Audit testing found arrangements are in place for performance to be measured and monitored, however opportunities to review and simplify measures in place were identified. <i>Opinion: Green.</i></p> |
| Bank Reconciliation                     | 2               | Final Report Issued | Amber         | <p>The audit considered the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – There are key controls in place which ensure that all areas of the bank reconciliation are carried out in an accurate and prompt manner. Audit testing found appropriate key controls are in place and complied with to reconcile the Council's bank accounts. Recommendations were made to improve the timeliness of reconciliations along with removal of some staff accesses to the Bankline system. <i>Opinion: Amber.</i></p>  |
| Creditors                               | 4               | Final Report Issued | Amber         | <p>The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Effective key controls exist to manage the Creditors function. Key controls were found to be in place and generally complied with, however audit testing found that purchase orders are not raised for all expenditure where required. <i>Opinion: Amber.</i></p> <p>RMO2 – Effective key controls are in place to manage the corporate petty cash function. Audit testing confirmed key controls are in place and working effectively. <i>Opinion: Green.</i></p>  |

| Audit Review Title                                      | Planned Quarter | Status  | Audit Opinion | Scope of Audit and Findings (where finalised)  |
|---|-----------------|---|---------------|--|
| Personal & Premises Licensing                           | 3               | Fieldwork completed, report with client for consideration | ---           | The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – Effective policies and procedure notes exist to support the personal and premises licence function.<br>RMO2 – Appropriate arrangements are in place for the proper administration of personal and premises licences.<br>RMO3 – Appropriate enforcement arrangements exist for personal and premises licences.  |
| Car Parking Permits                                     | 4               | Fieldwork completed, report drafted                       | ---           | The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – Adequate arrangements exist for the processing and monitoring of parking permit applications (including car park season tickets, residential and business permits).<br>RMO2 – Adequate arrangements exist for the control of Visitor Permits and Dispensations.  |
| Data Protection   | 4               | Fieldwork completed, report drafted                       | ---           | This audit considers the Council's arrangements in respect of the following risk management objective (RMO):<br>RMO1 – There are adequate data protection policies and procedures in place.  |
| Housing Benefits - Assessment, Interventions & Reviews. | 3               | Fieldwork underway  | ---           | Due to resource issues in the Revenues & Benefits Team, management requested this audit be deferred to the beginning of 2014-15.<br>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):<br>RMO1 – Housing Benefit applications are assessed accurately with workloads prioritised to make the best use of available resources.<br>RMO2 – Arrangements are in place for Housing Benefit Claims to be reviewed to identify and reduce errors and overpayments. |

## 2014-15 Audit Plan Assurance Work

| Audit Review Title                  | Planned Quarter | Current Status                      | Audit Opinion | Scope of Audit and Findings   |
|-------------------------------------|-----------------|-------------------------------------|---------------|---|
| Treasury Management                 | 1               | Fieldwork completed, report drafted | ---           | <p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – There are appropriate policies and strategies in place with the CIPFA Code of Practice which are reviewed, approved and monitored regularly.</p> <p>RMO2 – Appropriate procedures are followed in respect of the investment of treasury management funds.</p> <p>RMO3 – Externally managed funds are effectively managed and controlled in line with Council policies.</p>       |
| Fees & Charges                      | 1               | Fieldwork completed, report drafted | ---           | <p>The audit considers the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – Fees and Charges are adequately set, approved, communicated and applied.</p>   |
| Income Collection – Payment Kiosks  | 1               | Fieldwork underway                  | ---           | <p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Adequate arrangements exist for operating and cashing up of income received via the Council's payment kiosks.</p> <p>RMO2 – Adequate arrangements exist for the recording, coding and balancing of all income received via the Council's payment kiosks.</p> <p>RMO3 – Appropriate controls exist in respect of contingency planning and minimising the potential for fraud.</p> |
| Income Collection – Web & Telephone | 1               | Fieldwork underway                  | ---           | <p>The audit considers the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – Adequate arrangements exist for the collection and accounting of income received via the Council's website and over the telephone.</p>   |

## Definitions of Audit Opinions

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

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

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

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

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

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

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

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**Corporate projects and other project & responsive work**

| Project / task  | Summary of work undertaken  |
|---|---|
| Creditors data matching   | Internal Audit carried out a data match to identify any potential duplicate suppliers and payments on the system.   |
| Data mapping for Welfare Reform Group   | Internal Audit carried out the preparatory work required and co-ordinated data for the project to enable data relating to the potential impact of Welfare Reform changes to be overlaid on mapping software; it is anticipated this will help the council to ensure efforts are targeted to the most appropriate areas. |
| Administration arrangements for signup of Revenues & Benefits staff to the Departmental Code of Conduct | Internal Audit assisted with the review and updating of the department specific Code of Conduct for officers in Revenues & Benefits, and liaised with IT Services to ensure all relevant staff were presented with the new Code via the Netconsent software.  |
| Data manipulation / matching  | Internal Audit provided data analysis and matching services, including identification of duplicate data for Environmental Health & Housing Services to ensure the accuracy of external mailshots.   |
| Confidential  | Internal Audit provided data matching and analysis support to a project that is currently part of an ongoing legal case and as such details cannot be disclosed in this report.   |

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## Internal Audit Performance Measures

| Performance Measures  | Actual Performance 2013-14   | Opinion                | Performance in 2012-13 for comparison |
|---|--|------------------------|---------------------------------------|
| At least 65% of staff time (excluding holidays, sickness etc.) to be spent on productive audit activity providing client services. (Target of 65 per cent)                                    | 84.4% of available audit resources spent on productive audit activity during 2013-14.  | <b>Target achieved</b> | 84.59%<br>Target achieved             |
| Delivery of the Annual Audit Plan. (Target of 95 per cent)  | 97.56% of the 2013-14 annual audit plan completed.   | <b>Target achieved</b> | 97.37%<br>Target achieved             |
| Effectiveness of Internal Audit gaining commitment (1) based on the number of recommendations made against the number of recommendations accepted by Management. (Target of 90 per cent)      | 99.12% of all recommendations made during 2013-14 were accepted by Management.   | <b>Target achieved</b> | 97.67%<br>Target achieved             |
| Effectiveness of Internal Audit gaining commitment (2) based on the number of recommendations revisited in the period where Management have confirmed implementation. (Target of 90 per cent) | Management assurance of implementation was obtained for 93.30% of recommendations revisited in the period.   | <b>Target achieved</b> | 100%<br>Target achieved               |
| Client Satisfaction with Internal Audit (1) based on results of biannual client satisfaction consultation. (Target of above 2.5)  | Responses to the April 2013 client survey returned a rating of the Internal Audit Service of 3.86 against a maximum rating of 4.0  | <b>Target achieved</b> | 3.53 rating<br>Target achieved        |
| Client Satisfaction with Internal Audit (2) based on post audit client satisfaction surveys. (Target of 80 per cent)  | Responses received to post audit client surveys returned a 100% satisfaction rating against a maximum rating of 100%.  | <b>Target achieved</b> | 98.08%<br>Target achieved             |
| Positive statement by the External Auditor regarding satisfaction with the work of Internal Audit.  | In the Audit Plan for TMBC for the year ended 31 March 2014 Grant Thornton stated:<br><i>Overall we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work to date has not identified any weaknesses which impact on our audit approach.</i> | <b>Target achieved</b> | Target achieved                       |

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

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

#### Part 1- Public

#### Matters for Information

#### 1 AUDIT COMMISSION WORK PROGRAMME AND SCALES OF FEES 2014/15

**This report informs Members of the Audit Commission's Work Programme and Scales of Fees 2014/15.**

#### 1.1 Introduction

1.1.1 Following consultation, the Audit Commission Board has approved the 2014/15 work programme and scales of fees for the audit of the accounts of local government, fire and rescue and police bodies. The Commission do plan to make any changes to the work programme for 2014/15 and have set scale fees at the same level applicable for 2013/14. Attached for information is the Work Programme and Scales of Fees for 2014/15 [**Annex 1**]. The scale of fees for each audited body is made available on the Commission's website and ours is £60,135. The Commission also charge for certification work where the indicative fee is £21,600.

1.1.2 Separately from setting the fees for 2014/15, the Commission is also paying rebates in respect of audit fees to audited bodies, returning some £6.8m to local government, fire and rescue and police bodies. The rebate reflects the efficiency savings achieved by the Commission ahead of its closure in March 2015.

1.1.3 The Commission will set the fees and work programme for 2015/16 before it closes. Contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts, and for setting fees under them, will pass to a transitional body from April 2015.

#### 1.2 Legal Implications

1.2.1 Legally, we have no choice but to accept the final version of the 2014/15 Work Programme and Scales of Fees and will continue to cooperate with our external auditors who serve us.

**1.3 Financial and Value for Money Considerations**

1.3.1 As set out above.

**1.4 Risk Assessment**

1.4.1 None.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton  
Director of Finance and Transformation

# Work programme and scales of fees 2014/15

Local government and police bodies

March 2014

**The Audit Commission's role is to protect the public purse.**

**We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.**

**We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.**

**We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.**

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# Introduction

1 This document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2014/15, with the associated scales of audit fees. Separate documents cover the Commission's work in the [NHS](#) and at [small bodies](#).

## Background

2 The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Copies of [the Code](#) and the associated [Statement of Responsibilities of Auditors and Audited Bodies](#) are on the Commission's website. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.

3 Under section 7 of the Audit Commission Act 1998, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing any scales of fees, we consult audited bodies in local government, their representative associations, the Department for Communities and Local Government (DCLG) and the accountancy profession.

4 Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another.

5 The Commission publishes the [scale fees for individual bodies](#) each year on its website, to support transparency and to help audited bodies compare their fees with those of similar bodies. A [fee comparator tool](#) is also available on the website.

6 Section 28 of the Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work we undertake. The Commission publishes [indicative certification fees](#) for individual bodies each year on its website.

## Scales of fees for 2014/15

7 The Commission made significant reductions of up to 40 per cent in audit and certification fees in April 2012, on the basis that these lower fee levels would apply for the five years of the contracts let to audit firms, for the audit of the accounts for 2012/13 to 2016/17. These fees are subject to annual review. The fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.



- 8** We do not plan to make any changes to the work programme for local government and police audited bodies for 2014/15. Following consultation, we have therefore set scale audit fees at the same level as the fees applicable for 2013/14.
- 9** We will keep the scale fees for police bodies, as relatively new bodies, under review to ensure they continue to be consistent with auditors' local assessments of audit risks.
- 10** While we have not made any change to the 2014/15 scale audit fees for pension funds, we are aware that the complexity of some pension funds makes the necessary audit work difficult to deliver within the scale fee. We will keep the fees for pension fund audits under review.
- 11** We received a limited response to our consultation on the 2014/15 work programme and scales of fees, with only 13 replies across all our sectors and stakeholders. A [summary of the consultation responses](#) is available on our website.

## **Fees from 2015/16**

- 12** The Audit Commission expects to close on 31 March 2015, as a result of the Local Audit and Accountability Act 2014. This Act provides for the introduction of a new framework for local public audit.
- 13** The Commission will set the fees and work programme for 2015/16 before it closes. This will be the first year of audit following our closure. We continue to work with officials at DCLG on this basis.
- 14** The Commission's current contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts, and for setting fees under them, will pass to a transitional body from April 2015. Ministers have announced that an independent private company to be set up by the Local Government Association (LGA) will be the transitional body.
- 15** The Commission is undertaking a further audit procurement exercise, for the contracts with audit firms let in 2006 and 2007. These contracts cover 30 per cent of principal bodies in the Commission's regime. We expect to make further savings for all audited bodies from 2015/16 as a result of this exercise. An announcement on the outcome of the procurement will be made at the end of March 2014.

# Work programme 2014/15

## Audit

**16** 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 the body, and the arrangements it has put in place to manage those risks.

**17** Under the Code of Audit Practice, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2014/15, the Commission will specify work on Whole of Government Accounts (WGA) only.

**18** Following consultation on proposals for changes to the measurement requirements for transport infrastructure assets, the Chartered Institute for Public Finance and Accountancy (CIPFA) now expects that full implementation of the expected changes will be reflected in 2016/17 accounts, with 2015/16 being the preparatory year. There will therefore be no impact on auditors' work or scale audit fees for 2014/15.

## Auditors' local value for money work

**19** Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**20** Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a risk-based approach to their local value for money work, giving a conclusion on the arrangements in place. The approach is based on criteria specified by the Commission relating to financial resilience and prioritising resources.

**21** Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a tailored approach to their local value for money conclusion work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

**22** A conclusion on value for money arrangements is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

**23** 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 conclusion.

**24** Our website provides further [information about the VFM conclusion](#).

## National reports

**25** The Commission publishes the annual [Auditing the Accounts](#) and [Protecting the Public Purse](#) reports. These summarise, respectively, the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money, and the results of our annual survey of fraud in local government. The reports are published in November-December each year.

**26** As the Commission expects to close in March 2015, it will not be publishing these reports at the end of 2015. The last reports will be published in 2014, on the results of auditors' 2013/14 work.

**27** The counter-fraud function at the Audit Commission will transfer to a new 'Public Sector Counter Fraud Centre of Excellence' to be established by the Chartered Institute of Public Finance and Accountancy (CIPFA). In setting up the centre, CIPFA will build on the Commission's existing counter-fraud work, including the annual *Protecting the Public Purse* report.

**28** The Commission's responsibilities that transfer to the transitional body, to be established as a private company by the LGA, may include publishing a summary of auditors' work similar to *Auditing the Accounts*.

**29** Central government departments are accountable to Parliament for the billions of pounds of taxpayers' money paid by them to local bodies, and will continue to need access to the results of local external audit. DCLG is considering this as part of the work programme to close the Commission.

## Certification work

**30** As well as their work under the Code, appointed auditors certify certain claims and returns as agents of the Commission.

**31** DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns after the closure of the Commission. Arrangements will be based on tri-partite agreements between grant-paying bodies, auditors and audited bodies, with fees agreed locally between audited bodies and auditors.

**32** Auditors will continue to certify local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP) under the arrangements put in place by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014/15, and it is expected that arrangements for 2015/16 onwards will be made on the same basis by the independent private company to be set up by the LGA.

## Assessment and inspection work

**33** The Local Audit and Accountability Act 2014 sets out new arrangements for inspection, under which the Secretary of State may require an inspection to be undertaken.

**34** The Commission's power to conduct corporate governance inspections will be repealed in April 2014, with the Secretary of State gaining powers to commission such inspections from that date. However, to support transition to the new arrangements, DCLG has asked the Commission to retain its capability until March 2015, when the Commission will close.

# Scales of fees for 2014/15

## Scales of audit fees for local government, police and fire and rescue bodies

**35** The scales of fees for 2014/15 reflect the cost of the work programme outlined above. The 2014/15 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**36** The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is 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.

**37** As the 2014/15 scale fees for individual bodies are based on the fees for previous years, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2013/14 fee.

**38** It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work is required than is represented in the scale fee, they must, subject to approval by the Commission, seek to agree a variation to the scale fee with the audited body.

**39** The Commission obtains updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee, on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Only fee variations approved by the Commission can be invoiced or refunded to audited bodies.

**40** The Commission will charge fees to cover the costs of considering objections, from the point at which auditors accept an objection as valid, as a variation to the scale fee. This also applies to costs incurred on any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

## Pension fund audits

**41** The 2014/15 scale audit fee [for each pension fund audit](#) is available on our website.

## Certification work

42 The indicative fee for certification work at [individual audited bodies](#) is available on our website. The fees are based on the latest final certification fees available, for 2012/13 certification, and cover certification of housing benefit subsidy claims only. The 2014/15 indicative certification fees have been reduced to reflect the removal of council tax benefit from subsidy claims from April 2013.

43 The indicative fees 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.

44 It is a matter for the auditor to decide the work necessary to certify the claim or return and to seek to agree any proposed variation to the indicative fee with the audited body.

45 As 2014/15 indicative certification fees for individual bodies are based on the latest certification fees available, they already reflect the auditor's assessment of the work required. We expect variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2012/13 fee.

46 Information must be submitted by auditors to the Commission for any proposed variations to indicative certification fees. Only fee variations approved by the Commission can be invoiced or refunded to audited bodies.

## Value added tax

47 All the 2014/15 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

16 June 2014

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

#### Part 1- Public

#### Matters for Information

#### 1 AUDIT FEE LETTER 2014/15

Report to inform Members of the receipt of the Audit Fee Letter for 2014/15.

#### 1.1 Introduction

1.1.1 I have received from Grant Thornton the Audit Fee Letter for 2014/15 [**Annex 1**] which sets out details of the audit fee for the Council along with the scope and timing of audit work and the audit team.

1.1.2 The fee represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes. The audit fee for 2014/15 is £60,135, the same as that charged in 2013/14. There is also a charge for certification work where the composite indicative fee is £21,600.

#### 1.2 Legal Implications

1.2.1 None.

#### 1.3 Financial and Value for Money Considerations

1.3.1 As set out above.

#### 1.4 Risk Assessment

1.4.1 None.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton  
Director of Finance and Transformation

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Sharon Shelton  
Director of Finance and Transformation  
Tonbridge & Malling Borough Council  
Gibson Building  
Gibson Drive  
Kings Hill  
West Malling  
Kent  
ME19 4LZ

**Grant Thornton UK LLP**  
The Explorer Building  
Fleming Way  
Manor Royal  
CRAWLEY  
RH10 9GT  
T +44 (0)1293 554130

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

24 April 2014

Dear Sharon

### **Planned audit fee for 2014/15**

The Audit Commission has set its proposed work programme and scales of fees for 2014/15. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

The Council's scale fee for 2014/15 has been set by the Audit Commission at £60,135, which compares to the audit fee of £60,135 for 2013/14.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: [www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415](http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415)

The audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

### **Value for Money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VfM conclusion and a separate report of our findings will be provided.

### **Certification of grant claims and returns**

The Council's composite indicative grant certification fee has been set by the Audit Commission at £21,600. This indicative fee assumes that complete working papers to support all claims and returns will be provided within agreed timeframes. It also assumes that work on the housing benefit and council tax benefit subsidy claim will continue to be performed under the HB Count framework, and that under this framework additional 40+ testing will not be required.

### **Billing schedule**

Fees will be billed as follows:

| <b>Main Audit fee</b>      | <b>£</b>      |
|----------------------------|---------------|
| September 2014             | 15,033.75     |
| December 2014              | 15,033.75     |
| March 2015                 | 15,033.75     |
| June 2015                  | 15,033.75     |
| <b>Grant Certification</b> |               |
| December 2015              | 21,600        |
| <b>Total</b>               | <b>81,735</b> |

### **Outline audit timetable**

We will undertake our audit planning and interim audit procedures from November 2014. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in September 2015 and work on the whole of government accounts return in September 2015.

| <b>Phase of work</b>             | <b>Timing</b>                | <b>Outputs</b>                     | <b>Comments</b>  |
|----------------------------------|------------------------------|------------------------------------|--|
| Audit planning and interim audit | November 2014-<br>March 2015 | Audit plan                         | The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.      |
| Final accounts audit             | June - September 2015        | Audit Findings Report              | This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance. |
| VfM conclusion                   | January to September 2015    | Audit Findings Report              | As above   |
| Financial resilience             | January to September 2015    | Financial resilience report        | Report summarising the outcome of our work.  |
| Whole of government accounts     | September 2015               | Opinion on the WGA return          | This work will be completed alongside the accounts audit.  |
| Annual audit letter              | October 2015                 | Annual audit letter to the Council | The letter will summarise the findings of all aspects of our work.   |
| Grant certification              | June to December 2015        | Grant certification report         | A report summarising the findings of our grant certification work  |

### **Our team**

The key members of the audit team for 2014/15 are:

|                    | <b>Name</b>     | <b>Phone Number</b> | <b>E-mail</b>             |
|--------------------|-----------------|---------------------|---------------------------|
| Engagement Lead    | Darren Wells    | 01293 554120        | Darren.J.Wells@uk.gt.com  |
| Engagement Manager | Trevor Greenlee | 01293 554071        | Trevor.Greenlee@uk.gt.com |
| Audit Executive    | Graham Short    | 01293 554088        | Graham.Short@uk.gt.com    |

### **Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

### **Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett our Public Sector Assurance regional lead partner ([paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)).

Yours sincerely

A handwritten signature in dark ink, appearing to read 'D Wells'.

Darren Wells  
For Grant Thornton UK LLP