

TONBRIDGE & MALLING BOROUGH COUNCIL



EXECUTIVE SERVICES

Chief Executive

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

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

26 September 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, 6th October, 2014 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

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To confirm as a correct record the Minutes of the meeting of Audit Committee held on 16 June 2014

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

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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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Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 16th June, 2014

Present: Cllr Ms V M C Branson (Chairman), Cllr Mrs F A Kemp, Cllr S M King, Cllr Mrs A S Oakley and Cllr M Parry-Waller

Grant Thornton, External Auditors: Mr T Greenlee (Audit Manager)

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

An apology for absence was received from Councillor T Edmondston-Low (Vice-Chairman)

PART 1 - PUBLIC

AU 14/28 DECLARATIONS OF INTEREST

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

AU 14/29 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 14 April 2014 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 14/30 RISK MANAGEMENT STRATEGY

The joint report of the Chief Executive and Director of Finance and Transformation reviewed the current Risk Management Strategy. No amendment was considered to be required although officers noted some minor drafting adjustments for the final version.

RECOMMENDED: That the Risk Management Strategy set out at Annex 1 to the report be adopted by the Council.

AU 14/31 LOCAL CODE OF CORPORATE GOVERNANCE

The joint report of the Chief Executive and Director of Finance and Transformation reviewed the Local Code of Corporate Governance and presented a revised draft containing one change to include reference to the Council's Strategic Risk Register.

RECOMMENDED: That the revised draft Local Code of Corporate Governance set out at Annex 1 to the report be adopted by the Council.

AU 14/32 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2014/15

The report of the Director of Finance and Transformation provided 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, due to be reported to the Cabinet on 25 June 2014, was also presented.

The Committee was advised that the interest rate forecast provided by Capita was being reviewed by them following recent comment by the Governor of the Bank of England who had hinted that interest rates might begin to rise this calendar year. Reference was made to the decision to transfer all the Council's core funds to in-house management by the end of the financial year and steps currently being progressed to enable the transfer to take place over the summer. It was noted that the summary of investment performance indicated that total investment income for 2013/14 of £159,650, whilst marginally below the revised estimate figure, had generated a gross return for the year of 0.61%, exceeding the 7 day LIBID benchmark by 20 basis points. Members were pleased to note that the process of recovering the Council's deposit with Landsbanki was now complete.

RECOMMENDED: That the following be commended to the Council:

(1) the action taken by officers in respect of treasury management activity for April 2014 be endorsed; and

(2) the 2013/14 outturn position be noted.

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

AU 14/33 WHISTLEBLOWING CHARTER (CONFIDENTIAL REPORTING CODE)

The joint report of the Chief Executive and Director of Finance and Transformation presented a draft Whistleblowing Charter and highlighted a number of minor changes since the last review. It was noted that the Charter had been developed in accordance with the Enterprise and Regulatory Reform Act 2013 and reflected the duty of the Council to protect those making disclosures.

RESOLVED: That the draft Whistleblowing Charter set out at Annex 1 to the report be commended to the General Purposes Committee for endorsement.

AU 14/34 STATEMENT OF ACCOUNTS 2013/14

The Director of Finance and Transformation presented 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. It was noted that the Accounts included the proposals recommended to the Cabinet meeting on 25 June 2014. Members were reminded that the role of the Audit Committee was to consider and peruse the unaudited Accounts and to make recommendations as deemed appropriate to the General Purposes Committee to which responsibility for approval was delegated under the Council's constitutional arrangements.

Reference was made to the transfer of responsibility for the management of the Council's leisure facilities to Tonbridge and Malling Leisure Trust and the implications of the introduction of the business rates retention scheme. Members commented on the net revenue underspend and expressed appreciation to the Management Team and staff for the prudent management of resources.

RESOLVED: That

(1) the Statement provided by the Director of Finance and Transformation in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, as set out at Annex 2 to the report, be noted and endorsed;

(2) the recommendations detailed at paragraph 1.5.3 of the report following a review of the specific earmarked reserves held by the Council be noted and endorsed; and

(3) the unaudited set of Accounts for 2013/14 be commended to the General Purposes Committee at its meeting on 23 June 2014.

AU 14/35 REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT 2013/14

The report of the Director of Finance and Transformation informed the Committee of the annual review of the effectiveness of the Internal Audit function as required by the Accounts and Audit Regulations 2011. Members were advised that the Management Team had concluded that the opinion on the effectiveness of the Internal Audit function in place during 2013/14 was Good.

Reference was made to the requirement for the Internal Audit team to be externally assessed every five years and possible options for appointing an external assessor.

RESOLVED: That on the basis of the findings of the 2013-14 review, the Management Team conclusion that the effectiveness of Internal Audit during 2013/14 was Good be endorsed

MATTERS SUBMITTED FOR INFORMATION**AU 14/36 ANNUAL INTERNAL AUDIT REPORT 2013/14**

The report of the Chief Internal Auditor informed the Committee of the Internal Audit work completed during 2013/14, detailing how resources had been allocated and outturn against performance measures.

The Committee was advised of the circumstances surrounding the sickness absence of the Chief Internal Auditor over the forthcoming medium term period and the way in which his workload was being managed by staff within the Internal Audit team and Financial Services. Assurance was given that an adequate and effective Internal Audit function would continue to be provided without an impact on the 2014/15 Audit Plan. Members requested that their good wishes be conveyed to Mr Buckley.

RESOLVED: That the report be received and noted.

AU 14/37 AUDIT COMMISSION WORK PROGRAMME AND SCALES OF FEES FOR 2014/15

The Director of Finance and Transformation reported receipt of the Audit Commission's Work Programme and Scales of Fees for 2014/15 from which it was noted that the scale of fees had been set at the same level as for 2013/14. Members were advised that the Commission would continue to set the fees and work programme for 2015/16 before it closed and the responsibility for overseeing contracts with audit suppliers and setting fees would pass to a transitional body from April 2015.

RESOLVED: That the report be received and noted.

AU 14/38 AUDIT FEE LETTER 2014/15

The Director of Finance and Transformation reported receipt of the Audit Fee Letter for 2014/15 from Grant Thornton which gave details of the Council's audit fee (£60,135 plus a composite indicative fee of £21,600 for certification work) together with the scope and timing of audit work and the audit team. Mr Greenlee indicated that he envisaged no change in annual fee for the term of the contract which was welcomed by Members.

RESOLVED: That the report be received and noted.

AU 14/39 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.01 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Director of Finance & Transformation

Part 1- Public

Matters for Recommendation to Cabinet – Council Decision

1 TREASURY MANAGEMENT MID-YEAR REVIEW 2014/15

This report provides an update on treasury management activity undertaken during the period April to August of the current financial year. Members are reminded of the parameters that define the Council's risk appetite and of the arrangements for managing the Council's investments. Members are invited to endorse the action taken by officers in respect of treasury management activity to date, to retain the current risk parameters and note the change in management responsibility for the Council's core fund investments.

1.1 Introduction

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

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

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

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

- An economic update and revised interest rate forecast.
- Investment performance for April to August of the 2014/15 financial year.
- The current investment portfolio and associated management arrangements.
- Borrowing.
- Compliance with Treasury and Prudential Limits for 2014/15.
- A review of the risk parameters contained in the 2014/15 Annual Investment Strategy.

1.2 Economic Background

1.2.1 The strong growth experienced in the UK throughout 2013 has continued in the first two quarters of 2014 (0.8% in Q1 and Q2 of 2014 which equates to an annual rate of 3.2%). Strong growth is expected to continue throughout 2014 as forward surveys for the services and construction sectors are very encouraging and business investment is improving. However, sustained economic recovery in the longer term will require a rebalancing away from dependence on consumer expenditure and the housing market towards manufactured goods and exports.

1.2.2 Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. The sharp fall in inflation (CPI) down to 1.5% in May, the lowest rate since 2009, is also encouraging. Forward indications are that inflation is likely to fall further in 2014 to something near 1%. Overall, markets are expecting that the Bank of England Monetary Policy Committee (MPC) will be cautious in raising the Bank Rate as it will want to protect heavily indebted consumers from too early an increase at a time when inflationary pressures are weak. A first increase in Bank Rate is expected in Q1 or Q2 of 2015 and increases after that are expected to be at a slow pace and ultimately rise to a lower level than that prevailing before 2008.

1.2.3 The UK's major trading partner, the Eurozone, is facing increasing threats from weak or negative growth and from deflation. The European Central Bank (ECB) took limited action in June to loosen monetary policy in order to promote growth. In August, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all Eurozone countries and includes some countries with negative rates of inflation. In September the ECB took further action to cut its benchmark rate (the equivalent of our Bank Rate) to only 0.05% and started a programme of corporate debt purchases. The ECB has not yet embarked (it may never) on a programme of full quantitative easing (purchase of sovereign debt).

1.2.4 In the US the Federal Reserve continued to reduce its programme of asset purchases. Complete cessation of the programme is a precursor to rising interest rates in America. Asset purchases have now fallen from \$85bn per month in December 2013 to \$25bn in July 2014. Providing strong growth continues the programme is expected to come to an end in October 2014.

1.3 Interest Rate Forecast

1.3.1 The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

Rate	Now	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
3 mth LIBID	0.50	0.60	0.80	0.80	1.10	1.10	1.30	1.40	1.60	1.90
6 mth LIBID	0.60	0.80	0.90	1.00	1.15	1.20	1.40	1.50	1.80	2.00
12 mth LIBID	0.80	1.00	1.00	1.20	1.30	1.40	1.70	1.80	2.10	2.20
25yr PWLB	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.70	4.80	4.80

Downside risks to the forecast include:

- UK strong economic growth is currently dependent on consumer spending and an unsustainable boom in the housing market. The boost from these sources is likely to fade after 2014.
- A weak rebalancing of UK growth to exporting and business investment causing a weakening of overall economic growth beyond 2014.
- Weak growth or recession in the UK's main trading partners - the EU and US, inhibiting economic recovery in the UK.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the issues.
- Recapitalising of European banks requiring more government financial support.
- Lack of support by populaces in Eurozone countries for austerity programmes, especially in countries with very high unemployment rates.
- Monetary policy action failing to stimulate sustainable growth in western economies especially the Eurozone but also Japan.
- There are also increasing concerns that the reluctance of western economies to raise interest rates significantly for some years, plus the significant QE measures which remain in place has created potentially unstable flows of liquidity searching for yield and therefore heightened the potential for an increase in risks in order to get higher returns (a return of the environment which led to the 2008 financial crisis).

1.4 Investment Portfolio

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 aims 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 data.
- 1.4.3 A full list of investments held on 31 August 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 August 2014 was £10.0m. 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. 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. Responsibility for the management of core funds transferred from the Council's external fund manager to In-house management on 1 August 2014.
- 1.4.5 At the end of August 2014 funds invested and interest earned is set out in the table below:

	Funds invested at 31 August 2014	Average duration to maturity	Weighted average rate of return	Interest earned to 31 August 2014	Gross annualised return	7 day LIBID benchmark
	£m	Years	%	£	%	%
In-house cash flow	8.2	0.15	0.73	27,600	0.66	0.35
Externally managed core funds to 31 July	-	0.78 [1]	0.61 [1]	25,500	0.57	0.35
In-house managed core funds from 1 August	13.4	0.82	0.71	7,300	0.64	0.35
Total	21.6	0.57	0.72	60,400	0.62	0.35

[1] Figures shown for comparative purposes represent the values applicable to the externally managed portfolio on 31 July, the day before transfer to In-house management.

- 1.4.6 Interest earned of £60,400, whilst 27 basis points better than benchmark, is £9,400 below budget expectations. The shortfall against budget is attributed to the relatively poor performance achieved by the external fund manager in the early part of the year.
- 1.4.7 **Cash Flow Funds.** Our daily cash flow balances for the year ahead are modelled at the start of the financial year. That cash flow model is then updated daily and reviewed on a regular basis. 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. When cash surpluses permit fixed term investments are undertaken to take advantage of the higher yields available.
- 1.4.8 The Council participates in Capita's benchmarking service which enables the Council to gauge its 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 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. At 30 June 2014 our return (purple diamond) was the highest of the other Kent benchmarking group authorities and 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.
- 1.4.9 **Core Funds.** Historically, these funds have been managed by an external fund manager and are being used to support both revenue and capital expenditure over the next few years of our medium term financial strategy as the Council grapples with savings targets to achieve a balanced budget. The core fund balance of £13.4m (expected to reduce to circa £11m by the end of the financial year) is at a level where In-house management is practical without the need for additional staff resources. The 2014/15 Annual Investment Strategy (considered by Audit Committee in January 2014) made provision for these funds to be transferred to In-house management by the end of the financial year and thus contribute to future savings targets through reduced fund management fees. I'm pleased to report that the transfer to In-house management took place on 1 August 2014.
- 1.4.10 On 1 August all tradable instruments (Gilts, Treasury Bills and Certificates of Deposit) which comprised the lion's share (£12.6m) of the core fund were transferred to the Council's custody account with King & Shaxon and the cash balance (£0.8m) transferred to the Council's bank account. With the exception of the Gilts (£2.2m, maturing 2018) the fund manager's preference for short duration instruments, typically three months in duration, explains the poor performance referred to at paragraph 1.4.6. One benefit of their approach will be that by mid-October all of the investments (other than the Gilts) will have been replenished by the In-house team.

- 1.4.11 Following the transfer, initial core fund maturities have been reinvested in nine month term deposits (both fixed and tradable certificates of deposit) to generate yield. Other maturities as they arise will be invested in shorter duration instruments (mix of three and six month durations) to retain a degree of liquidity and take advantage of interest rate rises should they occur. Although its 'early days' the table at paragraph 1.4.5 demonstrates an improvement in core fund yield during August. The improvement in yield will continue as the months pass such that interest earned on core funds is expected to be in-line with budget for the final eight months of the financial year.
- 1.4.12 To accommodate the transfer the number of counterparties on our lending list **[Annex 2]** was expanded and investment limits attributable to cash flow and core fund activities separately identified. The two funds, whilst managed by the same staff, are treated as separate identities. The approach has ensured the simplicity of our daily cash flow management and associated staff cover arrangements can be perpetuated. The expanded lending list will help ensure the diversity of the combined portfolios can be maintained in the future.

1.5 Borrowing

- 1.5.1 It is a statutory duty for the Council to determine and keep under review the 'Affordable Borrowing Limits' by way of the Prudential Indicators (affordability limits) set out in the approved 2014/15 Investment Strategy. The Authority is debt free and uses a combination of reserves and revenue contributions to finance the Capital Plan. Borrowing on a temporary basis using overdraft facilities may be required from time to time to meet liquidity needs. No borrowing was undertaken in the period April 2014 to August 2014.

1.6 Compliance with the Annual Investment Strategy

- 1.6.1 During the financial year to date the Council has operated within the treasury limits and prudential indicators set out in the 2014/15 Investment Strategy and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found at **[Annex 4]** to this report.
- 1.6.2 Throughout April to August 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.

1.7 Review of risk parameters

1.7.1 Members will recall the detailed consideration that was given to the 2014/15 Annual Investment Strategy at the January 2014 meeting of the Audit Committee. The strategy includes the detailed parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. More specifically the 2014/15 Investment Strategy requires:

- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).
- Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is limited to no more than 20% of funds per Sovereign.
- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds (25% of funds for part state owned UK Banks).
- In selecting suitable counterparties the Council has adopted Capita's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 12 months, 5 years etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days. This broadly equates to a minimum long term credit rating of Fitch A (high) and a short term credit rating of Fitch F1 (strong).
- The duration of an investment in a foreign bank must not exceed Capita's recommendation. For UK financial institutions Capita's duration recommendation can be enhanced by up to three months subject to the combined duration (Capita recommendation plus the enhancement) not exceeding 12 months.
- Money Market funds should be rated Fitch AAmmf or equivalent and exposure limited to no more than 20% per fund.
- Enhanced Money Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.

1.7.2 The 2014/15 Strategy also limits the type of instrument (e.g. term deposits, floating rate notes etc.) that can be used and establishes a maximum investment duration (2 years other than Gilts). Given our overriding investment priorities of security of capital and liquidity the Council does not invest in equities.

1.7.3 In preparing this report our risk parameters have been reviewed and no changes are proposed.

1.8 Money market fund regulatory changes

1.8.1 Money market funds (MMFs) form a critical component in our daily cash flow management. They provide the same day access to cash as a traditional bank deposit account; allow surplus cash to be placed in a AAA credit rated product; and ensure our peak monthly cash balances are disbursed across a range of counterparties. The current yield on a typical fund used by the Council is 0.4%

and falls roughly mid-way between the average yield from our bank deposit accounts at 0.6% and that offered by the UK Debt Management Office at 0.25%.

1.8.2 Regulatory changes affecting funds traded in the US have recently been introduced by the Securities and Exchange Commission. Whilst these regulations do not affect funds domiciled in Europe (the ones we use) regulatory reform in Europe is in progress. The exact nature of the reform and when it will be enacted is unclear at the present time. Any change, however, will involve a 'bedding-in period' to allow MMFs to adapt to the new requirements. Any impact on our cash management operation is unlikely before next financial year.

1.9 Credit rating agencies approach to sovereign support for banks

1.9.1 The main rating agencies (Fitch, Moody's and Standard & Poor's) have historically provided some institutions with an uplift to their credit ratings to reflect sovereign support. Due to the evolving regulatory regime, these support levels are going to be removed by the rating agencies and this process may commence as early as this calendar year. The actual timing of the changes is still subject to discussion but it has already prompted a change in the way Capita assesses creditworthiness.

1.9.2 It is important to stress that the change in approach by the rating agencies does not reflect a change in the underlying status of an institution or the credit environment in which they operate, merely the implied level of support that has been built into ratings through the financial crisis. The eventual removal of Government support will only take place when the regulatory environment has ensured that financial institutions are much stronger and less prone to failure in a crisis should one occur in the future.

1.9.3 Both Fitch and Moody's provide 'standalone' credit ratings for financial institutions. For Fitch, it is the viability rating, while Moody's has the financial strength rating. Due to the removal of sovereign support from institution assessments, both agencies have suggested that in the future these will be the same as their long term ratings. As a result, Capita see no merit in monitoring both long term and 'standalone' ratings.

1.9.4 Furthermore, Fitch has already begun reassessing its support ratings, with a clear expectation that these will be lowered to 5, which is defined as 'A bank for which there is a possibility of external support, but it cannot be relied upon.' With all institutions likely to drop to these levels, Capita see little to no differentiation to be had from continuing to include support ratings in their methodology.

1.9.5 As a result of these rating agency changes, the credit element of Capita's methodology now focus solely on the short and long term ratings of an institution. Rating watch and outlook information continues to feature in Capita's assessment where it relates to these categories as does the use of credit default swap data. The change in Capita's methodology was introduced in June of this year and had little impact on their credit worthiness assessments (no banks were removed from

the list of suggested counterparties, a few were added and a few had their recommended investment duration increased by one band).

- 1.9.6 Credit ratings play a key role in our approach to risk management. Whilst the changes outlined above are unlikely to impact on the number of counterparties on our internal lending list during the remainder of this financial year this is an issue we will need to revisit when we consider the Annual Investment Strategy for 2015/16.

1.10 Legal Implications

- 1.10.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.
- 1.10.2 This annual review report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

1.11 Financial and Value for Money Considerations

- 1.11.1 The Bank Rate has remained at a historic low of 0.5% for over 5 years. Capita, our treasury advisors, in common with other market forecasts, anticipate an interest rate rise sometime during the final months of the current 2014/15 financial year.
- 1.11.2 Investment income is £9,400 below budget at the end of August. The shortfall is attributed to the relatively poor performance achieved by our external fund manager in the early part of the year. Core funds were transferred to In-house management at the beginning of August and investment income for the remainder of the financial year is expected to be broadly in-line with budget.
- 1.11.3 Investment performance is monitored against relevant benchmarks and compared to other local authorities using benchmarking data provided by Capita.

1.12 Risk Assessment

- 1.12.1 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.

1.13 Equality Impact Assessment

- 1.13.1 See 'Screening for equality impacts' table at the end of this report.

1.14 Recommendations

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

- 1) Endorse the action taken by officers in respect of treasury management activity for the period April to August 2014.
- 2) Note the transfer of responsibility for core fund investments to In-house management took effect on 1 August 2014.
- 3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers:

contact: Mike Withey

Nil

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	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

Investment Summary as at 31 August 2014

Counterparty	Sovereign	Fitch Credit rating				Capita Credit Worthiness/ Suggested Duration Limit	Investment type (Specified/Non-specified) [Statement date to Maturity]	Investment from	Maturity Date	Principal sum invested £	Return (coupon / yield at purchase) %	% of total investments	Instrument type	Core Funds £	Cash Flow £	Non-specified Investments £
		Long Term	Short Term	Viability	Support											
Bank of Scotland	UK	A	F1	a-	1	1 year	Specified	11/04/2014	13/04/2015	1,000,000	0.95%		Fixed deposit		1,000,000	
Bank of Scotland Total										1,000,000		4.61%				
Barclays Bank	UK	A	F1	a	1	6 months	Specified	29/08/2014	29/05/2015	1,000,000	0.80%		Fixed deposit	1,000,000		
Barclays Bank Total										1,000,000		4.61%				
BNP Paribas MMF	Luxembourg	AAA	mmf (Eq)	-	-	5 years	Specified	29/08/2014	01/09/2014	990,000	0.45%		Call - MMF		990,000	
BNP Paribas MMF Total										990,000		4.56%				
Handelsbanken	Sweden	AA-	F1+	aa-	1	12 months	Specified	29/08/2014	01/09/2014	2,100,000	0.55%		Call		2,100,000	
Handelsbanken Bank Total										2,100,000		9.68%				
ING Bank	Netherlands	A+	F1+	a	1	6 months	Specified	14/07/2014	14/10/2014	2,600,000	0.54%		CDs	2,600,000		
ING Bank Total										2,600,000		11.98%				
Insight Liquidity Plus EMF	Ireland	AAA	f/S1 (S&P)	-	-	5 years	Specified	18/02/2014	01/09/2014	1,050,000	0.80%		Call - EMF		1,050,000	
Insight Liquidity Funds Total										1,050,000		4.84%				
Lloyds Bank	UK	A	F1	a-	1	1 year	Specified	11/04/2014	13/04/2015	1,000,000	0.95%		Fixed deposit		1,000,000	
Lloyds Bank Total										1,000,000		4.61%				
NatWest Bank	UK	A	F1	bbb	1	1 year	Specified	29/08/2014	01/09/2014	10,000	0.25%		Call		10,000	
National Westminster Bank Total										10,000		0.05%				
NationWide Building Society	UK	A	F1	a	1	6 months	Specified	29/08/2014	29/05/2015	1,000,000	0.80%		Fixed deposit	1,000,000		
NationWide Building Society Total										1,000,000		4.61%				
Nordea Bank (Finland)	Finland	AA-	F1+	aa-	1	12 months	Specified	14/07/2014	14/10/2014	2,600,000	0.52%		CDs	2,600,000		
Nordea Bank (Finland) Total										2,600,000		11.98%				
Santander UK Plc	UK	A	F1	a	1	6 months	Specified	29/08/2014	01/09/2014	4,170,000	0.80%		Call	2,070,000	2,100,000	
Santander UK Plc Total										4,170,000		19.22%				
Standard Chartered Bank	UK	AA-	F1+	aa-	1	6 months	Specified	04/06/2014	04/09/2014	1,400,000	0.50%		CDs	1,400,000		
Standard Chartered Bank Total										1,400,000		6.45%				
UK Treasury Gilt	UK	AA+	-	-	-	5 years	Non-specified	29/05/2013	22/07/2018	2,281,000	1.16%		UK Gilt	2,281,000		2,281,000
UK Treasury Bill	UK	AA+	-	-	-	5 years	Specified	16/06/2014	15/09/2014	499,000	0.27%		UK Bill	499,000		
UK Treasury Total										2,780,000		12.81%				
Total invested										21,700,000		100.00%		13,450,000	8,250,000	2,281,000

Number of investments	14	Average investment value £	1,550,000
Number of counter parties	13	Average investment per counter party £	1,669,000
Group exposures (UK Nationalised) - max 25% for core funds or £2.6m cash flow.			
RBS + National Westminster excluding RBS managed Global Treasury Fund	0	0.00%	10,000
Bank of Scotland + Lloyds	0	0.00%	2,000,000

Total non-specified investments should be less than 60% of Core Funds	16.96%
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Tonbridge and Malling Borough Council Internal Lending List

Checked against Capita Duration Matrix dated 29/08/14										
Minimum investment criteria is Capita Green (100 days) Duration Band (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 Limits			Capita Duration [2]
							Cash Flow	Core Fund	Combined	
Nordea Bank	Finland	AAA	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	12 months
Deutsche Bank	Germany	AAA	A+	F1+	a	1	£2.1m	£2.6m	£4.7m	6 months
ING Bank	Netherlands	AA+	A+	F1+	a	1	£2.1m	£2.6m	£4.7m	6 months
Svenska Handelsbanken AB	Sweden	AAA	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	12 months
Barclays Bank	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
HSBC Bank plc	UK	AA+	AA-	F1+	a+	1	£2.1m	£2.6m	£4.7m	12 months
Santander UK plc	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
Standard Chartered Bank	UK	AA+	AA-	F1+	aa-	1	£2.1m	£2.6m	£4.7m	6 months
Nationwide Building Society	UK	AA+	A	F1	a	1	£2.1m	£2.6m	£4.7m	6 months
Bank of Scotland plc [3] Group limit with BOS and Lloyds of £2.6m	UK	AA+	A	F1	a-	1	£2.6m	£3.3m	£5.9m	12 Months
Lloyds Bank plc [3] Group limit with BOS and Lloyds of £2.6m	UK	AA+	A	F1	a-	1	£2.6m	£3.3m	£5.9m	12 Months
National Westminster Bank plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	£3.3m	£5.9m	12 Months
The Royal Bank of Scotland plc [3] Group limit with Nat West and RBS of £2.6m	UK	AA+	A	F1	bbb	1	£2.6m	£3.3m	£5.9m	12 Months
UK Debt Management Office inc Treasury Bills	UK	AA+	N/A	N/A	N/A	N/A	No limit	No limit	No limit	N/A
UK Treasury - Sovereign Bonds (Gilts)	UK	AA+	N/A	N/A	N/A	N/A	N/A	£6.7m	£6.7m	N/A
UK Local Authorities	UK	AA+	N/A	N/A	N/A	N/A	£2.1m	£2.6m	£4.7m	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.

Tonbridge and Malling Borough Council Internal Lending List

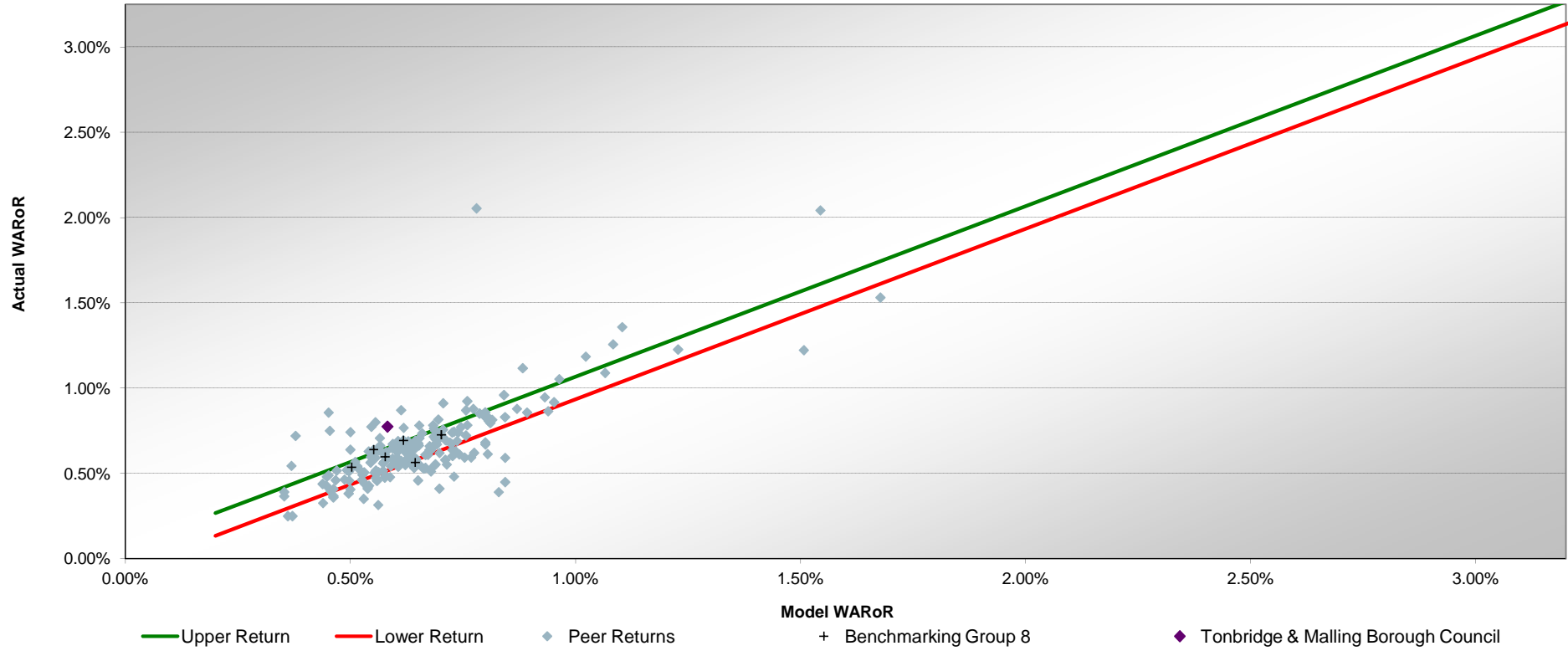
Money Market Funds						
Minimum investment criteria one of AAA-mf, AAAMmf or AAAm.						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAm	£2.1m	£2.6m	£4.7m
BNP Paribas	-	-	AAAm	£2.1m	£2.6m	£4.7m
Goldman Sachs	AAA-mf	AAAMmf	AAAm	£2.1m	£2.6m	£4.7m
Deutsche Fund	AAA-mf	-	AAAm	£2.1m	£2.6m	£4.7m
Ignis	-	AAAMmf	AAAm	£2.1m	£2.6m	£4.7m
Morgan Stanley	AAA-mf	AAAMmf	AAAm	£2.1m	£2.6m	£4.7m
Prime Rate	AAA-mf	AAAMmf	AAAm	£2.1m	£2.6m	£4.7m
Insight	-	AAAMmf	AAAm	£1.05m	£1.3m	£2.35m

Enhanced Cash Funds						
Minimum investment criteria AAA.						
Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus	-	-	AAAf /S1	£1.05m	£1.3m	£2.35m

Approved by Director of Finance & Transformation 1st September 2014	No Change
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Tonbridge & Malling Borough Council

Population Returns against Model Returns



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.77%	0.58%	0.19%	0.52%	0.65%	Above

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Prudential and Treasury Indicators

1 Prudential Indicators	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Capital expenditure	1,744	3,348	2,638
Ratio of financing costs to net revenue stream	-1.41%	-1.42%	-1.27%
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	£(0.23)	£0.30	£0.57 [1]

2 Treasury Management Indicators	2013/14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Authorised limit for external debt			
Borrowing	nil	5,000	5,000
Other long term liabilities	nil	nil	nil
Total	nil	5,000	5,000
Operational boundary for external debt			
Borrowing`	nil	2,000	2,000
Other long term liabilities	nil	Nil	Nil
Total	nil	2,000	2,000
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	0 – 60%
Upper limit for variable rate exposure under one year at the year end	16,309 (86.1%)	40 – 100%	40 – 100%
Upper limit for total principal sums invested for over 364 days	2,234 (11.8%)	60%	60%

3 Maturity structure of new fixed rate borrowing during 2014/15	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

[1] Subject to the outcome of the 2014/15 Capital Plan Review to be reported as part of the forthcoming estimates cycle.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 LOCAL AUDIT AND ACCOUNTABILITY ACT 2014

This report provides an update on issues covered by the Local Audit and Accountability Act 2014 and our response to the latest Consultation about secondary legislation needed to give effect to the new local audit arrangements.

1.1 Introduction

1.1.1 The Local Audit and Accountability Act 2014 received Royal Assent on 31 January 2014. Its origins go back to the early months of the coalition government when it announced plans to disband the Audit Commission and replace it with a **new decentralised audit regime** where local authorities are free to appoint their own external auditors while ensuring that there continues to be robust local public audit.

1.1.2 Consultations and a draft Bill followed. Members will recall that we had reservations about the proposals which we set out in our response/s to the consultations that followed. Nonetheless, it was apparent the Government intended to press ahead with its plans leading to the Local Audit and Accountability Act 2014.

1.1.3 When the Bill was formally introduced into Parliament in May 2013 the government had introduced two new provisions – one relating to the local authority publicity code and the other adjusting the provisions for referendums on rises in council tax. Further provisions were added during the parliamentary process on transparency of council meetings and the conduct of parish polls.

1.2 New Decentralised Audit Regime

1.2.1 The Act abolishes the Audit Commission and replaces it with a new local audit framework, giving local public bodies the freedom, with safeguards, to appoint their own external auditors and manage their own audit arrangements where audit quality is regulated within a statutory framework.

- 1.2.2 The Audit Commission will retain responsibility to let and manage public audit contracts to the bodies which come under its remit until 31 March 2015. As Members are aware the Audit Commission has outsourced the work of its in-house audit practice to four private firms. Contracts in the London (South) Surrey and Kent area were let to Grant Thornton from 2012/13 for a five-year period with the option of a further three-year extension and will, therefore, need to be managed past the abolition of the Audit Commission. This responsibility is to transfer to the LGA along with value for money tools and Housing Benefit grant certification.
- 1.2.3 As a result councils could be responsible for appointing external auditors from 2017 at the earliest (by 31 December 2016) or 2020 (by December 2019) if the government decides to extend the contracts by three years.
- 1.2.4 To recap, the main issues set out in the Act are as follows:
- The accounts of a relevant authority must be audited by an auditor appointed by that authority in accordance with the Act.
 - The relevant authority must appoint an auditor (either individually or jointly with other local authorities) to audit its accounts for the financial year not later than 31 December in the preceding financial year (the appointment to be made by full Council). Appointment may be for more than one financial year, but the authority must make a further appointment of an auditor at least once every five years.
 - The relevant authority must consult and take into account the advice of an independent auditor panel on the selection and appointment of an auditor.
 - The independent auditor panel is to consist of a majority of independent members (or wholly of independent members) and must be chaired by an independent member. Deemed independent if the panel member has not been a member or officer of the authority within the period of five years; officer or employee of an entity connected with the authority; a relative or close friend of a member or officer of the authority or an officer or employee of an entity connected with the authority.
 - An independent auditor panel must advise the authority on the selection and appointment of an auditor to audit its accounts; and advise the authority on the maintenance of an independent relationship with the auditor appointed to audit its accounts.
 - The relevant authority must within the period of 28 days beginning with the day on which the appointment is made, publish a notice about the appointment on its website.
 - If the authority fails to appoint an auditor the authority must inform the Secretary of State. The Secretary of State may direct the authority to

appoint the auditor named in the direction, or approach an auditor on behalf of the authority.

- The Secretary of State to make regulations concerning the process for a local auditor to resign or be removed.
- Auditors will continue to be required to comply with a code of practice developed by the Comptroller and Auditor General of the National Audit Office and approved by Parliament.
- The auditor retains the power to issue an advisory note where it appears that the audited body may be about to undertake unlawful expenditure.
- The Financial Reporting Council will become the overall regulator of audit standards.
- The professional accountancy bodies are identified as recognised supervisory bodies charged with putting in place eligibility rules for those firms wanting to be appointed as local public auditors and the qualifications and experience required to be able to sign off a local audit report.
- The right of local electors to inspect local authorities' accounts and related documents, without payment, is retained. So is the right to lodge an objection to any items within the accounts, but has been limited in the new Act so as to give the auditor discretion over whether to investigate.
- Statutory responsibility for the National Fraud Initiative will transfer to the Cabinet Office.
- The Audit Commission's work in helping to tackle fraud and corruption will transfer to a new Counter Fraud Centre being established by the Chartered Institute of Public Finance and Accountancy. This will include taking over responsibility for the annual '*Protecting the public purse*' report.

1.2.5 Powers were added to the Act during its parliamentary process to enable the establishment of sector-led collective procurement arrangements. Under such arrangements, authorities would be able to opt-in and have an auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State. Any decision to opt-in to collective procurement will need to be taken by full Council. Regulations introduced to disapply or modify the Act's other provisions to facilitate collective procurement arrangements. Most significantly, those audited bodies that opt-in **will no longer be under a duty to have an auditor panel**.

1.2.6 The LGA has been in talks with local authorities to establish how many would be willing to use the services of a sector-led procurement body and is clearly a proposal that we are interested in exploring further. The prospects for such an arrangement are increasing with the announcement that the LGA will manage the current national contracts when the Audit Commission is abolished.

1.3 Further Provisions covered by the Act

1.3.1 The Act also:

- Allows the Secretary of State to direct local authorities to comply with the local authority publicity code.

Related issue – continued statutory requirement on local authorities to publish statutory notices in local newspapers. It is a generally held view that this is now an expensive and outdated method of communication.

- Amends the legislative framework for council tax referendums to provide that increases set by levying bodies are taken into account in determining whether the council tax increase for a forthcoming financial year is excessive. This must be done with reference to principles set out by the Secretary of State including a nationally prescribed maximum percentage increase. Where a local authority is seeking to set an excessive council tax increase, it can only be implemented if local electors vote in favour of it.

Related issue – as local authorities have no formal powers to reduce or reject levies charged to the council tax, even after a referendum, they would have to absorb any excessive levy increase via a reduction to their own budgets.

- Gives the Secretary of State power to increase access and transparency of local authority meetings held in public, including giving citizens and the press the explicit right to film and tweet from any meeting held in public.
- Allows the Secretary of State to amend the legislative framework governing the conduct of parish polls.

1.4 Latest Consultation Paper

- 1.4.1 On 19 June 2014 the Department for Communities and Local Government published a Consultation about secondary legislation needed to give effect to the new local audit arrangements. Two of the four areas covered by the Consultation are not of particular relevance to us, i.e. modification of the Act in relation to smaller authorities; and Transparency Code for internal drainage boards, charter trustees and port health authorities. The two areas which are relevant to us are as follows:

Specification of Collective Procurement body

- 1.4.2 Paragraphs 1.2.5 and 1.2.6 refer.

Accounts and Audit Regulations

- 1.4.3 New Accounts and Audit Regulations to be made under Section 32 of the Local Audit and Accountability Act 2014.

1.4.4 The two key changes proposed in the draft regulations are:

1. An earlier timetable for the preparation and publication of the statements of accounts where it is proposed to bring forward, from 2017/18 (but it is hoped that authorities will move to the new timetable as soon as they can) the existing dates of 30 June and 30 September to 31 May and 31 July, for accounts to be signed and certified by the Responsible Financial Officer and then approved and published.

In recent years we have presented the Statement of Accounts to the Corporate Management Team around the third week in May and as a result believe we can achieve the date of the 31 May for the preparation of the accounts, albeit there is a lot to do in a very short timescale. Our concern is, as the audits will have to be completed over a shorter period than is the case now will audit fees rise as a result.

2. Reform of the rules on the exercise of public rights to inspect the accounting records and to put objections and questions to the auditor where it is proposed to run the accounts inspection and objection periods together from a date determined by the completion of the annual accounts; and we support the proposal.

1.4.5 The return date for responses to the Consultation was 18 July 2014. As a result I sought the approval of your Chairman and the Chairman of the General Purposes Committee, together with the Leader of the Council and the Cabinet Member for Finance, Innovation and Property to my response to the Consultation. A copy of the response can be found at **[Annex 1]**. The Consultation runs to more than 80 pages so rather than reproduce in hard copy, the document can be found at the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/324239/Local_Audit_Consultation3.pdf

1.5 Legal Implications

1.5.1 Codes of audit practice will continue to be approved by Parliament.

1.6 Financial and Value for Money Considerations

1.6.1 The efficiency savings which have been realised by the Audit Commission in outsourcing its in-house audit will not be sustainable through individual and local procurement. Local bodies even procuring jointly will have a lower bargaining power than the Audit Commission does at present. In addition, to establish an independent auditor panel along the lines set out will bring additional work and cost. The proposal for audits to be completed over a shorter period than is the case now may see an increase in audit fees.

1.7 Risk Assessment

- 1.7.1 There is a risk that the reductions in the cost of audit services achieved in recent years will be eroded over time without that bulk purchasing power and for audit fees to increase as a result of the proposal for audits to be completed over a shorter period than is the case now.

1.8 Equality Impact Assessment

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

1.9 Recommendations

- 1.9.1 Members are requested to **endorse** the response to the consultation as previously agreed with your Chairman and the Chairman of the General Purposes Committee, together with the Leader of the Council and the Cabinet Member for Finance, Innovation and Property.

Background papers:

contact: Neil Lawley

Nil

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	The report provides an update on issues covered by the Local Audit and Accountability Act 2014 and sets out our response to the Local Audit Consultation published by the DCLG on 19 June 2014.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	See above.
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.

List of Questions

Smaller Authorities

Q1. Do the regulations meet the Government's policy objective at Paragraph 2.1?

Yes.

Q2. Do you have any other comments on the proposed smaller authorities' regulations?

No other comments.

Q3. Do you agree with the differing proposals regarding the appointment of auditors to exempt authorities which are opted-in and those which are opted-out of the specified person's auditor appointment regime?

Agree.

Collective Procurement

Q4. Should regulations require that the decision to opt-in to sector-led arrangements is made by full council?

Yes.

Q5. Do you agree that the maximum length appointing period should be restricted to five years?

Agree.

Q6. Do you have any other comments on the proposed collective procurement regulations?

No other comments.

Accounts and Audit Regulations

Q7. Is 30 working days a suitable period for the accounts to be available?

Yes.

Q8. Do you agree this information should be published electronically?

Yes.

Q9. Do you agree that a common period for the exercise of public rights should be included in the regulations?

Agree.

Q10. Do you have any views on the intentions for exempt authorities set out above?

No.

Q11. Do you have any other comments on the proposed Accounts and Audit Regulations?

There is the potential for audit fees to increase as a result of the proposal for audits to be completed over a shorter period than is the case now. If there was evidence to support that was the case would this be addressed under the New Burdens Regime?

Transparency Code

Q12. Do you agree that the Code should be mandatory for internal drainage boards, charter trustees and port health authorities with an annual turnover not exceeding £25,000?

Agree.

Q13. Should there be a threshold above which individual items of expenditure must be published? If yes what should this threshold be (e.g. £50, £100)?

Suggest the threshold be set at £250.

Q14. What exemptions – if any – would need to be made to information published to explain negative responses to the internal controls objectives (e.g. information relating to a current fraud case)?

Do not believe you can be prescriptive as flexibility is required in order for each case to be judged on its merits.

Q15. The Government proposes that internal drainage boards will be exempt from publishing the details of public land and infrastructure assets. Do you agree?

Agree.

Q16. The Government proposes that charter trustees will be exempt from publishing the details of public land and building assets. Do you agree?

Agree.

Q17. Do you agree this information should be published electronically?

Agree.

Q18. How much additional staff time and cost will be involved for authorities in publishing the required data online?

Question for those affected to answer.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 HALF YEAR INTERNAL AUDIT REPORT 2014-15

Summary

This report informs Members of the Internal Audit work completed for the period April to September 2014. Due to publication deadlines, this report was prepared in mid-September; as such outturns detailed below and the performance measures include estimates for the full six months.

Members are asked to note that the current staffing situation will require a revision of the Annual Internal Audit Plan agreed by the Committee in April and a revised plan will be presented to the January meeting of the Committee.

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*. 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 the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan*.

1.2 Internal Audit Staffing

- 1.2.1 The Internal Audit Team report to the Chief Internal Auditor and consists of the Audit Manager, a Senior Auditor post (0.5FTE) and an Internal Audit Assistant post. The Audit Manager post is shared with Gravesham Borough Council with the officer splitting her time equally between the two councils. The Chief Internal Auditor has been absent due to ill-health since late May and in his absence, the Chief Financial Services Officer has been overseeing the strategic management of the Internal Audit function.

- 1.2.2 In August the Internal Audit Assistant left the Council's employment, and the recruitment of a Trainee / Internal Auditor is underway. Due to this vacancy and the absence of the Chief Internal Auditor, the team will not be able to complete all work detailed on the Annual Internal Audit Plan for 2014-15.
- 1.2.3 The team are focussing on the highest risk areas of the plan to ensure best use is made of the available resources. As such resources are being directed to control assurance work to ensure that all assurance reviews on the original plan can be completed to enable the Chief Internal Auditor to provide an opinion on the overall control environment to support the Annual Governance Statement. This reduces the flexibility for the team to provide consultancy services, including those set out on the original audit plan; such activities will have to be considered on a case by case basis. Once an appointment has been made to the Trainee / Auditor post a revised version of the plan will be presented to the Audit Committee for approval; it is anticipated this will be the January meeting of the Committee.

1.3 Net staff Out-turn

- 1.3.1 Net staff resources available to September 2014 as detailed at **[Annex 1]** amounted to 247 days. The team has recorded 23 days of sickness absence in the first half of this year; primarily this represents the long-term absence of the Chief Internal Auditor.

1.4 Annual Audit Plan

- 1.4.1 The Internal Audit Plan for 2014-15 was presented to Management Team on 25 March and was approved by the Audit Committee on 14 April and is attached at **[Annex 2]** for Members information. The plan sets 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 reviews 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 During the first six months of the 2014-15 financial year the team completed 42% of the plan and a further 15% is currently underway; this is comparable to the same point in the 2013-14 year at which the team had completed 39% with a further 14% current, and went on to complete 97.6% of the final plan at year end.

1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work. **[Annex 1]** reports that a total of 132 audit days have been spent on the completion of assurance work in the first half of 2014-15. As experienced in previous years, a number of programmed audits relating to the 2013-14 audit plan were not fully completed in that financial year and have required finalisation in 2014-15. Further details of the planned audit work completed during the year can be found in **[Annex 3]**. Where an assurance review has been given, the definitions of audit opinions in use are detailed at **[Annex 4]** of this report.
- 1.5.2 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. 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 to help ensure prompt action is taken to address weaknesses identified in Internal Audit reviews.

1.6 Consultancy Work

- 1.6.1 As shown at **[Annex 1]** the Internal Audit team has spent a total of 21 days on consultancy work in the first half of 2014-15.
- 1.6.2 *Projects, responsive work and Advice & Information*
- 1.6.3 The team offer support to corporate projects and provide ad hoc advice and information as and when requested by Council officers. During the first half of the year the team has provided support to a number of 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.
- 1.6.4 *Anti-Fraud Activity*
- 1.6.5 The Internal Audit team plays a key role in the Council's anti-fraud activity and have spent 8 days on this type of work in the first half of 2014-15.
- 1.6.6 The team co-ordinates the Council's participation in the National Fraud Initiative (NFI) ensuring data is extracted and uploaded for matching, and liaising with the Investigations Team and other relevant departments to ensure matches are investigated. The results of NFI exercises are reported through the Annual and Half Year Fraud Reports to the Finance, Innovation and Property Advisory Board.

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. In addition, the team has continued to be represented on the Kent Audit Group.

1.8 Training

- 1.8.1 Though no time has been spent on formal training in the first half of the 2014-15 financial year, the Audit Manager continues 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 Internal Audit Performance

- 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 Performance has been measured against each of the seven performance measures and an update on performance is provided for Members information at **[Annex 6]**.

1.10 Legal Implications

- 1.10.1 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 2014-15 financial year is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the Public Sector Internal Audit Standards.

1.11 Financial and Value for Money Considerations

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

1.12 Risk Assessment

- 1.12.1 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

Neil Lawley
Chief Financial Services Officer

contact: Katey Arrowsmith
Audit Manager

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Internal Audit Staff Resources - April to September 2014

Actual	<u>Days</u>	<u>Days</u>
Gross days available in period	200	
Less: Bank Holidays	8	
Plus: Partnership - Audit Manager days	55	
NET WORKDAYS AVAILABLE TO INTERNAL AUDIT		247
 <i><u>Less</u></i>		
Annual Leave	26	
Sick Leave	23	
Vacancies	22	
		71
AVAILABLE AUDIT DAYS		<u>176</u>
 <i><u>Apportioned Available Days</u></i>		
<u>Assurance Work</u>		
<i>Financial systems reviews</i>	105	
<i>Control environment reviews</i>	14	
<i>Audit follow up work</i>	13	
		132
 <u>Consultancy Work</u>		
<i>Corporate and other known project work</i>	11	
<i>Responsive project work (including advice & information)</i>	2	
<i>Anti-fraud activity</i>	8	
		21
<i>Other Audit Duties</i> *		23
		<u>176</u>

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

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No	Area of Audit Focus (In priority order)	Allocation of Audit Days	Proposed Scope
ASSURANCE WORK			
<u>Financial Systems</u>			
1	Debtors	10	Review of arrangements to administer and recover sums owed by the Council's sundry debtors.
2	Income Collection - Web & Telephone	10	Review of arrangements to collect and account for income received through the Council's website and over the telephone.
3	Income Collection - Payment Kiosks	10	Review of arrangements to collect and account for income received through the Council's payment kiosks.
4	Income Collection - Direct Debit & Standing Orders	10	Review of arrangements to collect and account for income received through Direct Debits and Standing Orders.
5	Housing Benefit Overpayments	15	Review of arrangements to identify, administer and recover overpaid Housing Benefit.
6	Council Tax Recovery	10	Review of arrangements to identify and recover unpaid Council Tax liabilities.
7	Fees & Charges	20	Review of arrangements to administer the Council's fees & charges.
8	NNDR Recovery	10	Review of arrangements to recover unpaid NNDR with a specific focus on preventing and detecting fraud.
9	Treasury Management	15	Review of arrangements in place to manage council's treasury management activities.
10	VAT	15	Review of arrangements in place to account for and pay the Council's VAT liabilities.
11	Write offs	10	Review of arrangements to identify and administer write offs.
12	Procurement	15	Review of arrangements of the Council's procurement activities.
		150	
<u>Control Environment Reviews</u>			
13	Standards of Officer Conduct (including anti-bribery and corruption arrangements)	10	Review of the council's arrangements to engender high ethical standards among staff with a specific focus on prevention of bribery and corruption.
14	Section 106 Agreements	10	Review of arrangements to apply Section 106 agreements to development cases.
15	Housing Financial Assistance including Rent Deposit Bonds	15	Review of arrangements to administer the council's Rent Deposit Scheme and other financial assistance.
16	Community Safety Partnership	10	Review of arrangements to deliver the Council's community safety objectives.
17	Licensing Functions (excluding Alcohol & Taxi Licensing)	15	
18	Cemeteries	10	
19	Housing Register & Allocations	10	Review of arrangements to administer the Common Housing Register and housing allocations.
20	Transparency	10	Review of the council's compliance with Transparency requirements.
21	Grounds Maintenance	5	
22	Leisure Trust Contract	5	
		100	
21	Audit Follow Up Work: Recruitment Vetting Discretionary Housing Payments Mobile Phones	30	Follow-up of agreed recommendations and reviews where an opinion of Red is given.
CONSULTANCY WORK			
<u>Known Project Work</u>			
22	Flood Expenditure - Spot Checks	10	Allowance to conduct spot checks to provide assurance over the Council's distribution of funding to support those affected by flooding.
23	Personnel Software Implementation - Project Support	5	Allowance to support the implementation of the new Personnel Software system.
24	Individual Elector Registration - Project Support	5	Allowance to support the implementation Individual Elector Registration.
25	Planning Applications - Efficiency Review	5	Allowance to contribute to the efficiency review on Planning Applications.
		25	
<u>Anti-Fraud Activity</u>			
26	National Fraud Initiative	20	Allowance for the co-ordination and administration of the council's participation in the National Fraud Initiative data matching exercises.
27	Council Tax Discounts & Exemptions	20	Fraud proofing review
		40	
28	Consultancy Services	10	Allowance for the provision of consultancy services unknown at the time of planning.
29	Responsive Work	5	Allowance for the provision of responsive support to the council during the financial year.
30	Advice and Information	5	Allowance for the provision of control advice and information to the council during the year.
		365	

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Audit reviews from 2013-14 finalised in 2014-15

Audit Review Title	Planned Quarter	Status	Audit Opinion	Scope of Audit and Findings
Personal & Premises Licensing	3	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 policies and procedure notes exist to support the personal and premises licence function. Audit testing found appropriate policies and procedures in place. Opinion: Green</p> <p>RMO2 – Appropriate arrangements are in place for the proper administration of personal and premises licences. Audit testing found processes to be appropriately followed however weaknesses identified included the inclusion of payment information on the Uniform system and the tracing of payments through to Integra. Opinion: Amber</p> <p>RMO3 – Appropriate enforcement arrangements exist for personal and premises licences. Audit testing found enforcement arrangements to be adequate however it was found that a formal Licensing Enforcement Policy is required for Member approval. Opinion: Amber</p>
Car Parking Permits	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 – Adequate arrangements exist for the processing and monitoring of parking permit applications (including car park season tickets, residential and business permits). Audit testing found controls to be adequate however issues were found including being able to follow a full audit trail for payments received and the limited use of Council Tax information to prove residency. Opinion: Amber</p> <p>RMO2 – Adequate arrangements exist for the control of Visitor Permits and Dispensations. Testing found that visitor permits require review on a regular basis. Opinion: Amber</p> <p>RMO 3 – Appropriate arrangements exist to administer miscellaneous permits. Audit testing found a number of free permits being issued to various organisation and staff which had not been approved by Members historically. Opinion: Amber</p>

Audit Review Title	Planned Quarter	Status	Audit Opinion	Scope of Audit and Findings
Data Protection	4	Final Report Issued	Amber	<p>This audit considered the Council's arrangements in respect of the following risk management objective (RMO):</p> <p>RMO1 – Adequate arrangements are in place for data protection policies and procedures to be in place. Audit testing highlighted some improvements to the procedures that would strengthen the internal controls. These involve a programme of DP training to be devised and delivered to officers, the DP Policy being reviewed and updated to include guidance regarding breaches and the roles of the DP Officer. In addition the policy needs to be published to a wider audience. The audit also drew attention to the need for the corporate retention of documents policy to be finalised in line with a review of all records that require disposal. Additionally a review of forms that collect personal data was recommended to ensure that the appropriate DP statement and declaration is included. Opinion: Amber</p>
Housing Benefits - Assessment, Interventions & Reviews.	3	Fieldwork completed, report with client for consideration	---	<p>The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 – Housing Benefit applications are assessed accurately with workloads prioritised to make the best use of available resources.</p> <p>RMO2 – Arrangements are in place for Housing Benefit Claims to be reviewed to identify and reduce errors and overpayments.</p>

2014-15 Audit Plan Assurance Work

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Treasury Management	1	Final Report Issued	Green	<p>The audit considered 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. Audit testing found strong policies and procedures in place however minor adjustments were required to reflect current circumstances. Opinion: Green</p> <p>RMO2 – Appropriate procedures are followed in respect of the investment of treasury management funds. Testing found procedures to be followed with no recommendations raised. Opinion: Green</p> <p>RMO3 – Externally managed funds are effectively managed and controlled in line with Council policies. Audit testing found all funds to be well managed and controlled with no recommendation raised in relation to this area. Opinion: Green</p>
Fees & Charges	1	Final Report Issued	Green	<p>The audit considered 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. Audit sample testing found that Services do review their fees and charges annually and are aware of the requirement to report to committee; however the audit found some discrepancies with fees advertised on the website and applying new rates from the effective date therefore reminders are to be sent to Services. In addition it was highlighted that fees and charges should be reported to committee in line with Financial Procedure Rules whether or not they result in changes. Opinion: Green.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Income Collection – Payment Kiosks	1	Final Report Issued	Green	<p>The audit considered 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. Audit testing found that adequate procedures were in place but the procedure notes required revising to reflect current processes. Opinion: Green</p> <p>RMO2 – Adequate arrangements exist for the recording; coding and balancing of all income received via the Council’s payment kiosks. Testing found these arrangements to be adequate however system parameters need to be set for miscellaneous income to include a credit card surcharge. Opinion: Green</p> <p>RMO3 – Appropriate controls exist in respect of contingency planning and minimising the potential for fraud. Audit testing found controls exist however the Business Continuity Plan requires updating with the replacement system, Adelante. Opinion: Amber</p>
Income Collection – Web & Telephone	1	Final Report Issued	Green	<p>The audit considered 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. Audit testing found arrangements were in place however some improvements were highlighted regarding provision of an online payment facility for Land Charges, approval of Council Tax invoice templates, transposition of the narrative from Adelante onto Integra and the Telephone Call Recording Policy requires updating regarding payment information not being recorded. Opinion: Green</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Flooding Expenditure	1	Fieldwork completed, report with client for consideration	---	The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs): RMO1 – Arrangements are in place for the Business Support Scheme to be effectively delivered RMO2 – Arrangements are in place for the Repair and Renew Grant Scheme to be effectively delivered RMO3 – Arrangements are in place for the Business Rates Flooding Relief to be effectively delivered RMO4 – Arrangements are in place for the Council Tax Flooding Discount to be effectively delivered
Recruitment Vetting Procedures Follow Up	2	Fieldwork completed, report with client for consideration	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – All weaknesses found as part of the Recruitment Vetting Procedures 13/14 Internal Audit have been addressed.
Mobile Phones Follow Up	2	Fieldwork completed, report with client for consideration	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – All weaknesses found as part of the Mobile Phones 13/14 Internal Audit have been addressed.
Housing Benefit Overpayments	2	Fieldwork completed, report with client for consideration	---	The audit considers the Council's arrangements in respect of the following risk management objectives (RMOs): RMO1 – Appropriate and timely action is taken to recover all Housing Benefit Overpayments. RMO2 – There are effective performance monitoring arrangements in place in respect of overpayments.
Debtors	2	Fieldwork completed, report with client for consideration	---	The audit considered the Council's arrangements in respect of the following risk management objectives (RMOs): RMO 1 – Effective key controls are in place to manage the Council's Debtors function. RMO 2 - Effective processes exist in respect of Periodical Income.

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Section 106 Agreements	2	Fieldwork underway	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – Section 106 agreement (planning obligations) have been applied to development cases appropriately, in line with legislation and policy.
Discretionary Housing Payments Follow Up	2	Audit brief issued	---	The audit considers the Council's arrangements in respect of the following risk management objective (RMO): RMO1 – There are appropriate arrangements in place for administering Discretionary Housing Payments.

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
Data matching for Business Rate Flood Support scheme	Internal Audit carried out various data matches to identify Business Rate Flood Support details.
Data matching for a Benefit Freedom of Information Request	Internal Audit carried out various data matches to help identify details for the FOI request.
Data Matching for duplicate cases	Duplicate tests of case references to assist in the monthly reconciliation for Waste and Street Scene.
Data Matching for the subsidy claim	Data match of spreadsheets to match data required for Grant Thornton for the subsidy audit.

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Internal Audit Performance Measures

Performance Measures	Actual Performance to September 2014	2013-14 full year performance
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)	86.9% of available audit resources spent on productive audit activity during the first half of 2014-15.	84.4% Target achieved
Delivery of the Annual Audit Plan. (Target of 95 per cent)	42% of fieldwork on the 2014-15 annual audit plan completed during the first half of 2014-15 with a further 15% current. (2013-14 half year report for comparison: 39% completed and 14% current)	97.56% 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)	100% of all recommendations made during the first half of 2014-15 were accepted by Management.	99.12% 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 86% of recommendations revisited in the period.	93.3% 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	3.86 rating 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 during the first half of 2014-15 returned a 100% satisfaction rating against a maximum rating of 100%.	100% 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: <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>	Target achieved

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE STATEMENT OF ACCOUNTS 2013/14

To inform Members of the outcome of the audit of the Council's Accounts for the year ended 31 March 2014.

1.1 Introduction

1.1.1 Our external auditor (Grant Thornton UK LLP) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. Under the Council's constitutional arrangements the External Auditors Report for 2013/14 [**Annex 1**] was presented and approved at the General Purposes Committee on 1 September.

1.2 Conclusions and Recommendations

1.2.1 Members will note there were no material issues that needed to be brought to the attention of the General Purposes Committee following the audit. However, the Auditors Report does contain an action plan at Appendix 1 which is set out below.

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council now performs an annual exercise to assess if the carrying value of assets not subject to formal external revaluation differs materially from fair value. We recommend that in future years the	Significant deficiency (risk of significant misstatement)	New procedural guidelines to be drafted and implemented for 'interim' valuations to involve external valuers certification of procedure.	For 14/15 Valuations by Principal Accountant

	Council obtains input from an external valuer to inform this review.			
--	--	--	--	--

- 1.2.2 There were a small number of minor technical or textual changes. Since only technical or textual changes have been made to the Accounts following the audit, I do not propose circulating copies of the audited Accounts to all Members. For completeness, however, the Chairman of the General Purposes Committee is to sign a copy of the audited accounts at the appropriate time. A copy of the Statement of Accounts 2013/14 will be placed in the Members' library and made available on the Council's website.
- 1.2.3 In addition, we have prepared a Summary Statement of Accounts document for publication, copies of which will also be placed in the Members' library and made available on the Council's website.

With regard to value for money Members will note the Report reads: "On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014."

1.3 Legal Implications

- 1.3.1 There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts that have been addressed as we moved through the closedown process.

1.4 Financial and Value for Money Considerations

- 1.4.1 The cost of the work is as notified to us in the 2013/14 Audit Plan.

1.5 Risk Assessment

- 1.5.1 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 timescale could lead to qualification of the Accounts.

Background papers:

Nil

contact: Neil Lawley
Paul Worden

Sharon Shelton
Director of Finance and Transformation

The Audit Findings for Tonbridge & Malling Borough Council

Year ended 31 March 2014

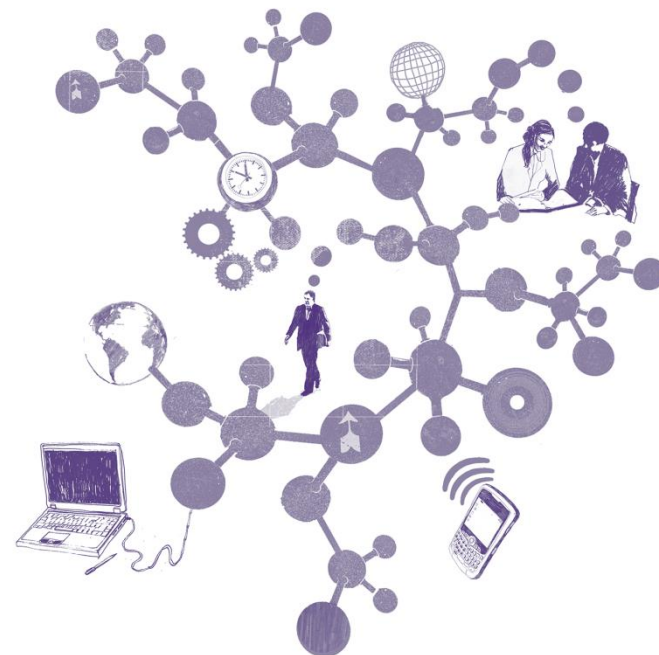
September 2014

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

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

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2. Audit findings	7
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4. Fees, non audit services and independence	24
5. Communication of audit matters	26

Appendices

- A Action plan
- B Audit opinion

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Section 1: Executive summary

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01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Tonbridge & Malling Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It reports our audit findings to officers and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated in our Audit Plan dated March 2014.

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

- testing of journal entries
- review of valuations for vehicles accounted for under embedded lease arrangements
- obtaining and reviewing letters from third parties to confirm investment balances at 31 March 2014

- testing of the Council's 2013/14 Housing Benefit subsidy claim. Our audit approach requires testing under the certification framework agreed between the Audit Commission and the Department of Work and Pensions to be substantially complete prior to giving our opinion on the Council's accounts
- review of the final version of the financial statements and the Annual Governance Statement
- updating our post balance sheet events review to the date of signing our audit opinion
- work under the Whole of Government Accounts framework.

We received draft financial statements and accompanying working papers at the start of our audit in accordance with the timetable agreed with officers. As in previous years the financial statements have been produced to a high standard. Only a small number of audit amendments were required.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments requiring amendment to the primary financial statements. We identified a small number of adjustments requiring amendments to disclosure notes. We also agreed a number of amendments to narrative notes and minor changes to the Annual Governance Statement.

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

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

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

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

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

The way forward

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

Our recommendations, which have been discussed and agreed with the Director of Finance and Transformation, are set out in the action plan in Appendix A.

Acknowledgment

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

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

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

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work performed and our findings from the audit risks we identified in our audit plan dated April 2014. We also set out the adjustments to the financial statements arising from our audit work and findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated in March 2014.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries 	<p>At the date of drafting this report our work to review journal entries is still in progress.</p> <p>Our work to date, including our review of journal controls and testing of journal entries, has not identified any evidence of management override of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses Page 74	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> Documentation of our understanding of processes and key controls over the transaction cycle Walkthrough of the key controls to assess whether those controls are designed effectively Substantive testing of creditor balances to supporting documentation Testing of new year payments to ensure expenditure had been posted to the correct accounting period 	We gained sufficient assurance to conclude that creditors were not materially misstated.
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none"> Documentation of our understanding of processes and key controls over the transaction cycle Walkthrough of the key controls to assess whether those controls are designed effectively Substantive testing of payroll information for a sample of employees to supporting documentation 	We gained sufficient assurance to conclude that employee remuneration expenses were not materially misstated.
Welfare expenditure	Welfare benefit expenditure improperly computed	(Work still in progress) <ul style="list-style-type: none"> Complete required work under the Audit Commission grant claim certification framework including review of a sample of benefit claims to ensure amounts have been correctly calculated. Review reconciliation of welfare expenditure in the financial statements to the benefit subsidy claim 	There are no issues identified from the work completed to date which we need to bring to your attention.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, plant & equipment</p>	<p>Revaluation measurement not correct</p>	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Testing of revaluation movements to supporting evidence for those assets subject to a full external revaluation • Evaluation of the qualifications and work of the Council's valuation expert • Review of the work performed by the Council to assess if the carrying value of those assets not subject to a full external revaluation differs materially from fair value. 	<p>The 2013/14 Code of Practice on Local Authority Accounting has clarified the requirements for valuing Property, Plant and Equipment (PPE) and now states explicitly that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' This means that a local authority needs to satisfy itself that the value of assets in its balance sheet is not materially different from the value arising as if all assets had been subject to a full professional revaluation at 31 March 2014.</p> <p>The cost of the Council's PPE assets at 31 March 2014, including Investment Properties, is £71,577,000. The Council has a cyclical programme of asset revaluations. Under this programme non-operational assets, including Properties for Community Use and Investment Properties, were subject to a full external revaluation in 2013/14. The aggregate valuation for these properties at 31 March 2014 as advised by the Council's external valuer was £5,545,000. We obtained sufficient assurance to conclude that the entries in respect of these revaluations were not materially misstated.</p> <p>The Council's finance team carried out a further exercise to assess if the carrying value of those assets not subject to external revaluation differed materially from fair value. This exercise did not have input from the Council's internal or external valuers. Following the exercise adjustments were made to increase the balance sheet valuations for car parks (£319,000) and leisure centres (£1,388,000).</p> <p>The adjustment for leisure centres was calculated using an indexation approach. updating asset values for changes in building costs. However, the index used differed from that used by the Council's external valuer in 2012/13 when leisure centres were last subject to a full revaluation.</p> <p>The Council has now obtained input from both its internal and external valuers. The calculations for leisure centres have been reperformed using the index selected by the external valuer in the previous year. These calculations suggest that the original adjustment to leisure centre valuations may have been understated, but that the largest potential understatement, using a forecast figure for the final quarter of 2013/14, is approximately £800,000. The Council has therefore concluded that any misstatement in the accounts is not material and that no further adjustment is required.</p>

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, plant & equipment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 76</p>	<p>Revaluation measurement not correct</p>	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Testing of revaluation movements to supporting evidence for those assets subject to a full external revaluation • Evaluation of the qualifications and work of the Council's valuation expert • Review of the work performed by the Council to assess if the carrying value of those assets not subject to a full external revaluation differs materially from fair value. 	<p>We have considered the balance sheet valuations for leisure centres and car parks. We have also considered the other asset categories not subject to external revaluation in 2013/14 where the Council has made no adjustment to asset values. Whilst there is some indication that overall PPE asset values are understated, we have concluded that there is no material misstatement which we would need to consider for our opinion purposes. Our overall conclusion is subject to the completion of our outstanding work on valuations for embedded lease vehicles, which is considered later in this report.</p> <p>We recommend that in future years the Council obtains input from external valuers to inform its review for those assets not subject to a full professional revaluation under the cyclical programme.</p>

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are set out at Note 1 to the accounts 	<ul style="list-style-type: none"> Revenue recognition policies are adequately disclosed in the financial statements. In our audit we did not identify any areas of non compliance with the revenue recognition policy, nor did we identify any areas of significant judgement in the application of the policy. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations revaluations impairments provisions 	<ul style="list-style-type: none"> The Council sets out its policies on judgements and estimates in note 1 to the accounts. We reviewed these policies and concluded they were reasonable and consistent with the CIPFA Code of Practice on Local Authority Accounting. We did not identify any instances of non compliance with those policies. We considered the Council's process to estimate the carrying value of those assets not subject to external revaluation in 2013/14. Our comments are reported in "Audit findings against other risks". The council has concluded that its Refuse Collection and Recycling, Amenity and Street Cleansing contracts contain "embedded lease" arrangements which require entries to be included in the Council's accounts, including vehicle valuations as part of the Council's PPE balance. In 2013/14 the Council's contractor acquired a number of vehicles. The Council has no information on the purchase price of these vehicles. The purchase prices used in preparing the accounts are therefore those of the previous vehicles dating from 2005. The gross cost of these vehicles included in the accounts is £1,926,000 (net book value £1,646,550). We have asked the Council to provide more evidence that these valuations are appropriate. Under the accounting framework for business rates applying from 1 April 2013 billing authorities are required to estimate a provision for business rate appeals. The value of this provision in the Collection Fund accounts at 31 March 2014 is £2,140,000. We reviewed the Council's calculations for this provision. We have concluded that the provision is not materially misstated. 	


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Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p>Other accounting policies</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 78</p>	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> The 2013/14 Local Authority Accounting Code of Practice introduced a number of changes to the accounting and disclosure requirements for defined benefit pension schemes following amendments to IAS19. The Council has substantially reflected these changes in its accounts. However, we agreed a number of minor amendments to disclosures. Our review of accounting policies has not highlighted any other issues which we need to bring to your attention. 	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

Following the audit a number of minor adjustments have been actioned by management and reflected in the amended accounts presented for members approval. None of these audit adjustments are above the level we are required to report to those charged with governance, other than for the disclosure issues noted on the following page.

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	1,818	Note 17: Debtors	Note 17 includes a disclosure on financial assets under IFRS7. Amounts totalling £1,818,000 which did not meet the definition of financial assets were included in the disclosure.
2 Disclosure	250	Note 19: Creditors	Note 19 includes a disclosure on financial liabilities under IFRS7. Amounts totalling £250,000 which did not meet the definition of financial liabilities were included in the disclosure.
3 Disclosure	890	Collection Fund Note 2	Total rateable value at 31 March 2014 was stated to be £134,356,098 but should be £133,466,287.

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Unadjusted misstatements

We did not identify any misstatements during the audit above the level we are required to report which management has decided not to adjust.

Internal controls

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Within the scope of our work we did not identify any significant issues to report to you.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and have been made aware of investigations and prosecutions during the year. We have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Disclosure issues requiring amendment to amounts have been disclosed at "Misclassifications and disclosure changes". A number of amendments to narrative notes have also been agreed. These include additional disclosure in respect of ; non-current asset valuations calculation of the balance on the Collection Fund Adjustment account at Note 11 the approach to estimating the provision for business rates the regulatory framework governing the Local Government Pension Scheme and the role of the Kent County Council Superannuation Committee.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.
7.	Annual Governance Statement	<ul style="list-style-type: none"> We agreed a number of minor wording changes to the Annual Governance Statement (AGS).

Section 3: Value for Money

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03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience.

The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall we concluded that the Council continues to have a strong focus on effective financial management, with a robust medium term planning framework and well-established processes for budget monitoring.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints within the current economic and funding environment.

We concluded that the Council continues to have an effective framework to address financial pressures and to deliver planned savings.

Our more detailed findings and Red/Amber/Green (RAG) ratings are at pages 22 and 23.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a Red, Amber or Green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The Council remains debt free. Levels of cash-backed reserves increased in 2013/14 by £1,189,000, including an increase of £297,000 on the General Revenue Reserve.</p> <p>The working capital ratio represents the extent to which current assets cover immediate liabilities. A ratio of less than one indicates potential liquidity problems. The Council's working capital ratio at 31 March 2014 was 4.6.</p>	Green
Strategic financial planning	<p>The Council continues to have a strong strategic planning framework. There is an awareness of financial risks and a willingness to take difficult decisions to protect the Council's financial position in the medium term.</p> <p>The Council has a well-established Medium Term Financial Strategy (MTFS) covering a 10 year period. The MTFS is updated at least annually and informs the annual budget-setting process. As at March 2014 the funding gap identified over the lifetime of the MTFS was £1,875,000. The Council continues to address this gap in a structured way, with planned "tranches" of savings to allow time for effective project planning and implementation. However, within this structured approach there is also a focus on early action, with the 2013/14 savings target increased following an in-year review and savings of £200,000 planned for 2015/16 brought forward to 2014/15. Although the 10-year funding gap at March 2014 is a reduction on that identified in previous years the Council recognises that significant uncertainty remains and that developing responses to financial pressures may become progressively more difficult over time.</p>	Green

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

:

Theme	Summary findings	RAG rating
Financial governance	The Council has a strong corporate focus on effective financial management. Financial reporting and monitoring processes are well-established with regular reporting on in-year performance to the management team, the Finance, Innovation and Property Advisory Board and Cabinet. Reporting is transparent with a clear commentary on risks and performance. The overall level and frequency of the reports supports effective monitoring. There is regular review of the Council's investment strategy and performance.	Green
Financial control	The Council continues to have an effective framework of financial control. There are well-established processes for preparing and monitoring annual budgets. Both revenue and capital budgets were underspent in 2013/14.	Green
Prioritising resources	The Council has a strong record of achieving efficiency savings. In 2013/14 it delivered savings of £1,287,000 against a revised in-year target of £1,148,000 and an original target of £900,000.	Green
Improving efficiency & productivity	The Council continues to review its strategic priorities and the cost-effectiveness of services in the context of the MTFs. Decision-making is based on appropriate information. Significant savings have been achieved by transferring the management of the Council's leisure centres to the Tonbridge & Malling Leisure Trust from November 2013. The Council has a number of joint working arrangements with the neighbouring Gravesham Borough Council. It may need to investigate the scope for further joint arrangements in the context of continuing financial pressures.	Green

Section 4: Fees, non audit services and independence

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Fees, non audit services and independence

We confirm below our final fees charged for the audit, subject to completion of our work on grant claim certification.

Fees

	Per Audit plan £	Actual fees £
Council audit	60,135	61,035
Grant certification	27,400	24,112
Total audit fees	87,535	85,147

The additional audit fee of £900 is in respect of work on material business rates balances. This additional work is necessary as auditors are no longer required to carry out work to certify NNDR3 returns. The additional fee is 50% of the average fee previously charged for NNDR3 certifications at District Councils and is subject to agreement by the Audit Commission.

The reduction in grant certification fees relates to the certification of the housing benefit subsidy claim. The Audit Commission has agreed a reduction in fee of 12 per cent for all authorities to reflect the removal of council tax benefit from the scheme.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

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

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

Section 5: Communication of audit matters

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Communication of audit matters to those charged with governance

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

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

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Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council now performs an annual exercise to assess if the carrying value of assets not subject to formal external revaluation differs materially from fair value. We recommend that in future years the Council obtains input from an external valuer to inform this review.	Significant deficiency	New procedural guidelines to be drafted and implemented for 'interim' valuations to involve external valuer's certification of procedure.	For 14/15 Valuations by Principal Accountant

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Appendix B: Audit opinion

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

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

Opinion on the Authority financial statements

We have audited the financial statements of Tonbridge & Malling Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Tonbridge & Malling Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Transformation and auditor

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

Scope of the audit of the financial statements

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

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

Opinion on financial statements

In our opinion the financial statements: give a true and fair view of the financial position of Tonbridge & Malling Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:
 securing financial resilience; and
 challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Tonbridge & Malling Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Tonbridge & Malling Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Explorer Building
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xx September 2014



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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 October 2014

Report of the Chief Internal Auditor

Part 1- Public

Matters for Information

1 NATIONAL FRAUD INITIATIVE (NFI) UPDATE

Summary

This report provides Members with an update on the performance of the corporate fraud prevention section in relation to the National Fraud Initiative (NFI) exercises.

It also provides a summary of a recent report issued by the Audit Commission entitled **Outcomes and Information for Elected Members and Decision Makers – 2012-13**. A checklist for Elected Members was provided alongside the report by way of a series of questions to help them assess their authority's performance in relation to NFI. Suggested answers to these questions have been provided for Members consideration.

1.1 Introduction

- 1.1.1 The Council proactively takes part in the National Fraud Initiative (NFI). This is a nationwide data matching exercise, comparing computer records held by the Council against other computer records held by councils and other bodies, allowing potentially fraudulent claims and payments to be identified.
- 1.1.2 The exercise runs bi-annually matching data relating to housing benefit, payroll, creditors, housing (including right-to-buy), insurance claims and taxi licensing information held by the Council.
- 1.1.3 In alternate years an exercise runs, matching council tax single persons discount to the electoral register to identify potentially false discounts.
- 1.1.4 The following sections are intended to give Members an overview of performance in relation to the exercises currently running and to also provide information for Members to consider alongside a report recently issued by the Audit Commission.

1.2 2012-13 Benefit Exercise

- 1.2.1 The 2012-13 benefit exercise resulted in 974 matches being received by Tonbridge and Malling. These matches covered a variety of different areas,

indicating undeclared income and household residents, as well as connections to council housing in other boroughs.

1.2.2 As of September, checks into 952 of these matches have been concluded and cases identified by the exercise have produced the following results:

- Weekly housing benefit entitlement reduced by £1,262.83.
- Weekly council tax reduction entitlement reduced by £245.93.
- Housing benefit overpayments totalling £72,173.80 and council tax benefit overpayments totalling £3,176.28.
- Excess council tax reduction of £3,405.06.
- 1 person cautioned and 5 accepted administration penalties.

1.2.3 22 cases remain ongoing, 2 of which are to be passed to Legal Services for consideration of criminal proceedings.

1.3 2013-14 Council Tax SPD Exercise

1.3.1 In March 2014, 549 matches in relation to council tax accounts that received a 25% single person discount were received from the 2013-14 exercise.

1.3.2 As of September, checks into 320 matches have been closed and the concluded cases have produced the following results:

- Removal of the single person discount from 64 council tax accounts (alternative equivalent discounts have been applied in 22 cases).
- Additional council tax revenue of £18,934.40 created by the discount removals.
- 2 civil penalties of £70 have been applied for failure to report changes in circumstances.

1.3.3 To date, no sanctions have been applied in relation to criminal offences. This is largely because many of the accounts amended so far were corrected on the basis of information already held within the benefits department.

1.3.4 Enquiries into the remaining 229 matches are continuing and it is anticipated that there will be further cases suitable for penalties or sanctions as enquiries into these outstanding matches progress.

1.4 Audit Commission Report

- 1.4.1 In September 2014, the Audit Commission sent reports to Members at each local authority entitled Outcomes and Information for Elected Members and Decision Makers – 2012-13. A copy of which can be found at **[Annex 1]**.
- 1.4.2 The report outlines the position of the NFI 2012-13 exercise and the level of fraud identified nationally as of 31 March 2014. Further cases may have been concluded since this date but are not factored into this report. It also provides performance statistics for Tonbridge and Malling individually in relation to:
- Number of matches in progress or completed.
 - Number of recommended matches in progress or completed.
 - Value of overpayments identified.
 - Value of monies being recovered.
 - Value of Council Tax liability identified in the 2011-12 exercise.
- 1.4.3 Tonbridge and Malling's performance in these areas has been compared against 14 other local authorities that are considered to be the nearest neighbours under CIPFA modelling and against the average for all district councils as a whole in relation to matches progressed.
- 1.4.4 In relation to matches in progress or completed, Tonbridge and Malling showed a figure of 94% as at 31 March 2014. This compares to an average of 54% amongst CIPFA Neighbours and an average of 46% for all district councils
- 1.4.5 100% of recommended matches had been dealt with and this compared with an average of 82% amongst CIPFA neighbours and an average of 69% for all district councils.
- 1.4.6 The bar chart for total NFI outcomes suggests that as of 31 March 2014, Tonbridge and Malling had identified approximately £60,000 of overpayments. This is fourth in the group of CIPFA nearest neighbours and compares with an average of approximately £32,000.
- 1.4.7 The bar chart for total NFI recovery suggests that as of 31 March 2014, Tonbridge and Malling had sought to recover approximately £52,000 of overpayments. This is fifth in the group of CIPFA nearest neighbours and compares with an average of approximately £25,000.
- 1.4.8 The bar chart for NFI Council Tax Outcomes suggests that Tonbridge and Malling had identified approximately £35,000 of additional council tax as part of their 2011-12 exercise. This is sixth in the group of CIPFA nearest neighbours and compares with an average of approximately £30,000.

1.5 Checklist for Elected Members and Decision Makers

- 1.5.1 Alongside the Outcomes report, the Audit Commission also provided a checklist for Members and Decision Makers by way of a series of questions to help them assess their authority's performance in relation to NFI and how well the NFI is integrated into the Council's processes and counter fraud policies. A copy of these questions and the suggested answers can be found at **[Annex 2]**.

1.6 Conclusion

- 1.6.1 Members will be able to see from the statistics in this report that the corporate fraud team have made significant progress with both the benefit exercise and the council tax SPD exercise. While some matches remain outstanding, they are linked to ongoing investigations with possible criminal action to be taken in relation to offences committed.
- 1.6.2 The Audit Commission report also demonstrates that Tonbridge and Malling is performing above average in all the areas identified and our own records for the current council tax exercise suggest that we are continuing to maintain that high standard approach.
- 1.6.3 Historically, the investigation team has only been responsible for the investigation of benefit related matches and the responsibility for checking the data received in other areas passed to individual departments. When the 2014-15 exercise commences, the investigation team will liaise with other departments and undertake investigations into suspicious activity identified in other areas of the Council to identify any instances of fraud.
- 1.6.4 Members will receive a further update on NFI work at the end of the financial year.

1.7 Legal Implications

- 1.7.1 The Audit Commission have legal powers to require local authorities to supply the data for the NFI.

1.8 Financial and Value for Money Considerations

- 1.8.1 The number of cases where fraud and error is identified forms only a small percentage of the referrals received, which means that the Council can place assurance on the systems that prevent fraud. However, significant savings can be identified from that limited number of cases.

1.9 Risk Assessment

- 1.9.1 Failure to investigate the referrals could lead to fraud not being discovered, allowing it to continue for a long period of time. This in turn could lead to large overpayments or a repetition of smaller value occurrences.

Background papers:

contact: James Larkin

Audit Commission Report

Neil Lawley

Chief Financial Services Officer

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National Fraud Initiative

Outcomes and Information for Elected Members and Decision Makers - 2012/13

Tonbridge & Malling Borough Council

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Introduction to the slide pack



This slide pack is intended for use by elected members and senior decision makers to inform you about the National Fraud Initiative (NFI) and data matching at your organisation

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We have included a summary of the key findings of the latest NFI national report and a summary of key points from the NFI checklist for decision makers and elected members which can be found in full on the [NFI website](#)



We have also included key NFI activity data for 2012/13 alongside tailored charts so you can compare your organisation with your neighbouring councils with similar profiles to yours



In case you have any questions we have included a glossary and link to further information at the end of the slide pack. If you require further information please contact nfiqueries@audit-commission.gsi.gov.uk

Background to the NFI

The NFI is a sophisticated data matching exercise designed to prevent and detect fraud

It was established in 1996 and is undertaken every 2 years

It incorporates England, Wales, Scotland and Northern Ireland

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There are over **1,300** mandatory and voluntary participants which provide **8,000** datasets

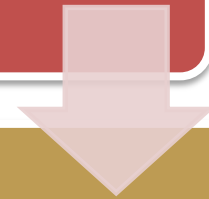
In 2012-13 NFI released **4.7 million** data matches and this led to **£229 million** of outcomes

We also undertake pilot work on new and emerging fraud risks and offer a [Flexible Data Matching Service](#)



The NFI National Report

Key outcomes and recommendations for bodies participating in the NFI are reported every two years in the NFI National Report



The report is intended for council members, non-executives and senior officers at audited bodies and was most recently published in June 2014



The report helps to demonstrate the effectiveness of the NFI in preventing and detecting fraud

Key Outcomes of the 2012/13 exercise - across England



£203 million in fraud and error was detected



571 prosecutions



120 people employed without the right to work in the UK were identified and as a result were dismissed or asked to resign



86 properties recovered by social landlords



21,396 blue badges and 78,443 concessionary travel passes cancelled

The figures in the national report for detection of fraud, overpayment and error include outcomes already delivered and estimates. Estimates are included where it is reasonable to assume that the fraud, overpayment and error would have continued undetected without the NFI data matching. A more detailed explanation is included in [Appendix 1 of the NFI national report](#). If you have any further queries about the data in the slides please contact the NFI team using the contact details at the end of this slide pack.

Data matching at your organisation



The table and bar charts have been provided to give you an overview of the data matching activities at your council in relation to the most relevant comparator councils.

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The table highlights the proportion of data matches followed up by your council. Participants of NFI receive a report of data matches that they should follow-up, and investigate where appropriate, to detect instances of fraud, over- or under-payments and other errors, to take remedial action and update their records accordingly.



Even where data matching shows little or no fraud and error, this still assures bodies about their control arrangements. It also strengthens the evidence for a council's annual governance statement.

Activity and Engagement with NFI – Tonbridge and Malling Borough Council

	Total NFI matches in progress or processed	NFI recommended matches in progress or processed
Tonbridge and Malling Borough Council	94% (1,394)	100% (189)
CIPFA nearest neighbours (Mean)	54% (1,055)	82% (192)
District Councils (Medium sized) (Mean)	46% (793)	69% (154)

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The CIPFA nearest neighbours are the 15 councils which have been modelled as those with the most similar profile by CIPFA. More detail of the 2009 modelling methodology can be found at http://www.cipfastats.net/default_view.asp?content_ref=2748

Understanding the bar charts

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Outcomes relating to your council are highlighted in yellow in the bar charts. The performance of your 15 CIPFA nearest neighbours are shown in the green bars.

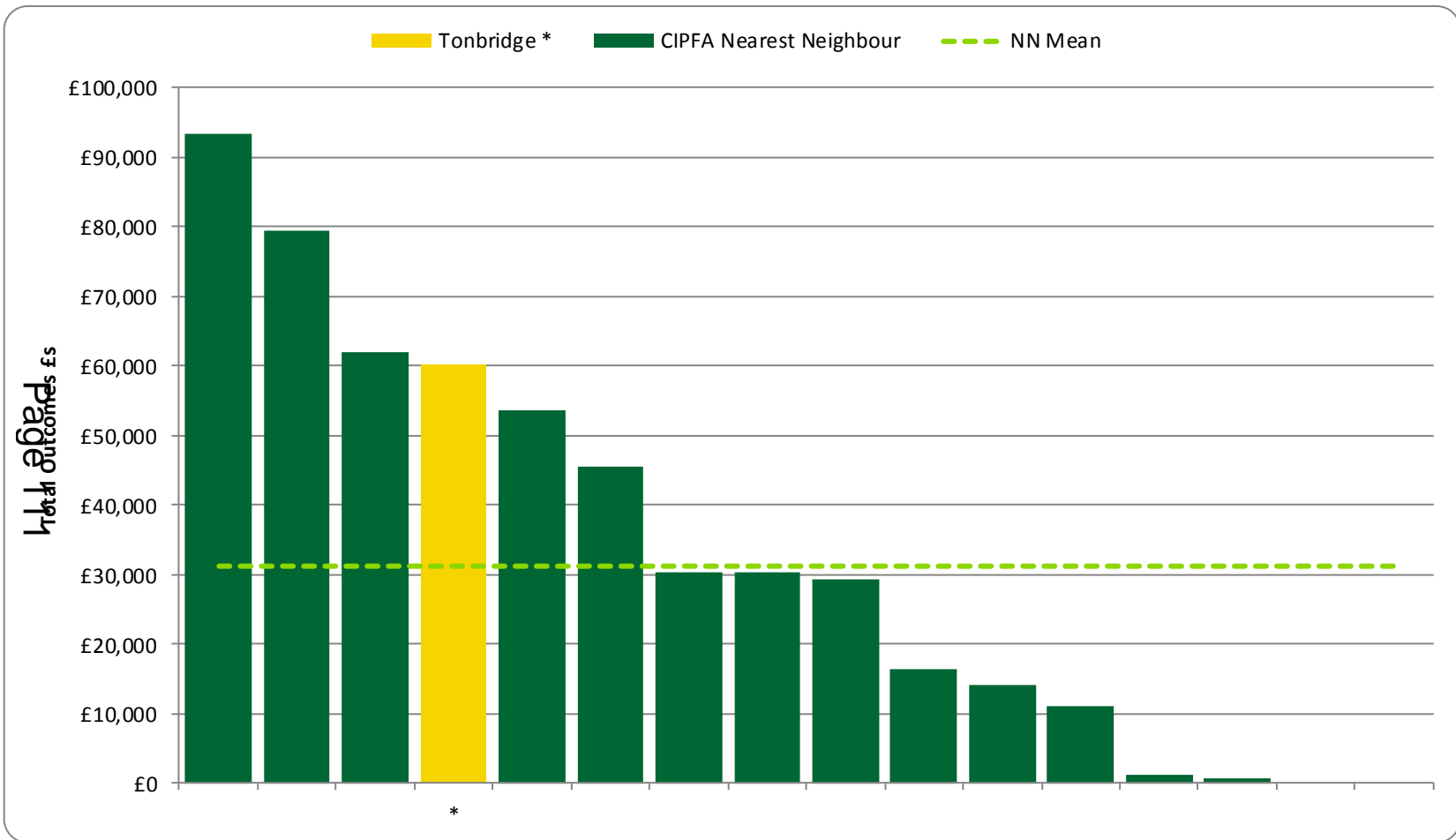


The mean value for your CIPFA nearest neighbours is highlighted by a green dashed line.



A '*' symbol has been used to denote where your council has no outcomes recorded.

Total NFI Outcomes – Tonbridge and Malling Borough Council



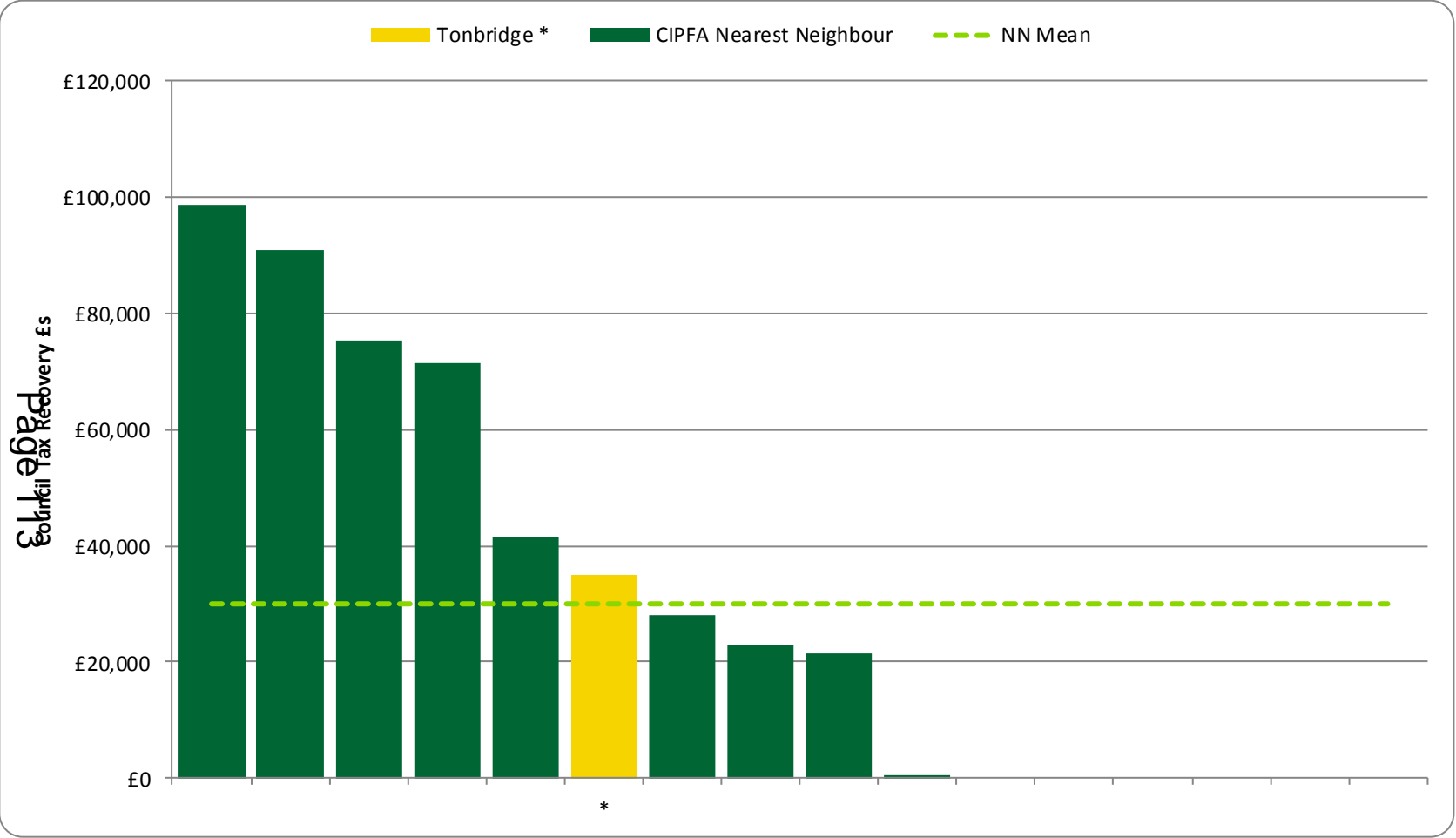
Please note outcomes from the NFI housing waiting lists pilot and council tax outcomes recorded in the NFI 2010/11 web application and FMS web application have not been included in this analysis.

Total NFI Recovery – Tonbridge and Malling Borough Council



Please note this excludes council tax recovery recorded in the 2010/11 web application and FMS web application.

NFI Council Tax Outcomes – Tonbridge and Malling Borough Council



Data relates to outcomes recorded in the 2010/11 web application and FMS web application.

Questions for Elected Members and Decision Makers

The NFI in our council

- What governance arrangements do we have in place to ensure the organisation achieves the best possible outcomes from the NFI?

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Maximising results

- Are we ensuring we maximise the benefits of the NFI for example, following up data matches promptly, recovering funds and prosecuting where possible?
- What assurances have we drawn about the effectiveness of internal controls and the risks faced by our council?

Broadening our council's engagement with the NFI

- Are we taking advantage of the opportunity to suggest and participate in the NFI pilot exercises and using the NFI Flexible Data Matching Service?

The NFI fit with wider counter-fraud policies

- How does the NFI influence the focus of our counter-fraud work for example, internal audit risk assessments, data quality improvement work or anti-fraud and corruption policy?

Glossary

Council tax outcomes	Council tax data is matched to electoral register data in order to identify instances where single persons discount may have been incorrectly awarded.
Flexible matching service	The flexible matching service allows you to re-perform any of the existing NFI data matching on demand outside of the usual two yearly programme but still using the proven NFI technology.
Mandatory participants	Bodies to which the Audit Commission appoints auditors other than registered social landlords as specified in Schedule 2 of the Audit Commission Act 1998.
NFI web application	The Commission has set up a secure, password-protected and encrypted website for its data matching exercises, known as the NFI web application.
Outcomes	Investigation of an NFI match may lead to a benefit being cancelled, overpayment generated or blue badges or concessionary travel passes being identified as invalid. These examples would be reported as NFI outcomes.
Pilots	The Commission will undertake new areas of data matching on a pilot basis to test their effectiveness in preventing or detecting fraud. Only where pilots achieve matches that demonstrate a significant level of potential fraud should they be extended nationally.
Recommended data matches	Matches considered to be of higher risk of potential fraud are signposted as a recommended data match.
Recovery	Where bodies seek to recover money lost as a result of fraud, error or overpayment.
Voluntary participants	Bodies that are outside Schedule 2 of the Audit Commission Act 1998 but elect to participate in NFI voluntarily.

If you have any further questions about the content of these slides please contact us using the details on the next slide.

Further Information

For further information about the NFI please look at our website

[NFI Website](#)



For further information about our Flexible Data Matching Service please follow the link below

[FMS Information](#)



For checklist questions for elected members and decision makers please follow link below

[NFI Checklist](#)



For any other queries please telephone 0303 444 8322 or email

nfiqueries@audit-commission.gsi.gov.uk



Section	Question	Answers/Actions
1	<p>Reviewing the results in your slide pack</p> <ul style="list-style-type: none"> • What were our outcomes from the most recent NFI exercise? • How do we compare to other similar councils? • Are there areas where we appear to perform well/did not perform well? 	<p>The report shows that Tonbridge & Malling identified around £60,000 of fraud and error and in all areas performed above the average of district councils and those considered to be CIPFA nearest neighbours.</p>
2	<p>Maximising the benefits of the NFI</p> <ul style="list-style-type: none"> • Are data matches followed up promptly? • Are funds being successfully recovered? • Do we prosecute where possible? • What assurances or conclusions do we draw from the NFI about the effectiveness of internal controls and the risks we face? • What changes, if any, have we made as a result of these conclusions? 	<p>All data matches are reviewed by relevant departments to determine whether there has been an error or that fraudulent activity may have taken place. The authority takes all appropriate steps to recover any incorrectly paid funds and does take steps to prosecute those found to have committed criminal offences.</p> <p>Further clarification would be needed to fully determine the effectiveness of internal controls. The report is based upon the financial outcomes that have been identified but as this does not detail the number of cases involved, it is not possible to say whether there have been multiple cases in a particular area, which would identify weaknesses in procedure, or a small number of isolated cases that have penetrated an otherwise robust process.</p>
3	<p>The NFI in our council</p> <ul style="list-style-type: none"> • What governance arrangements do we have in place to ensure we achieve the best possible outcomes from the NFI and who monitors them? • Is the NFI included in the remit of our audit committee or equivalent committee? • How do we keep other elected members or non-executive members informed about the NFI? • How is the NFI reflected in the governance training and 	<p>The results of the data matching exercises are passed to relevant departments for assessment to identify whether action is required. This process eliminates any false positive matches, which generally consist of cases where the authority was already aware of the relevant data but yet to act upon it.</p> <p>At present the investigation team undertakes enquiries into matches linked to suspected benefit and council tax fraud. These are monitored by the Fraud Investigations Manager while the overall exercise is monitored by the Audit Manager as the authority's designated key contact.</p>

	development provided for officers and elected members?	NFI activity is included in the remit of the Audit Committee and members are kept up to date via reports from the Audit and corporate fraud teams.
4	<p>Broadening your council's engagement with NFI</p> <ul style="list-style-type: none"> • Did we participate in the subsidised personal budget (direct payments) to deceased data pilot and housing benefits to student loans pilot matching that the NFI offered in October 2013? If not, why not? • Are there any potential pilot matches we want to suggest to the NFI team? • Have we considered how we could use the NFI flexible data matching service to prevent fraud or detect fraud sooner? 	<p>Tonbridge and Malling did not take part on the subsidised personal budget (direct payments) to deceased data pilot as the county council are responsible for this area of work. The Housing Benefit to student loans pilot was considered but the level of cases identified by the existing data matches offered by the NFI as a standard exercise suggested that this would not be a cost effective option as the level of return would not match the initial cost.</p> <p>Individual local authorities undertake their own data matching exercises using external companies to match credit referencing data against their own records. If the NFI were to be expanded to include credit referencing as one of their data sets, it could be compared with the existing council tax SPD to Electoral Register information to improve the quality of the matches identified.</p> <p>At present, the datasets included in the flexible data matching service are limited to council tax SPD to electoral roll data. Data matching is a proven way of identifying instances of fraud and error but until further datasets are available, the potential results that could be identified are insufficient to justify the costs associated with additional data matching.</p>
5	<p>The NFI fit with wider counter-fraud policies</p> <ul style="list-style-type: none"> • Do we have an elected member for counter fraud activity and the NFI? • How does the NFI influence the focus of our counter fraud work? • Do we publicise the outcomes from the NFI externally? 	<p>Councillor Martin Coffin, Cabinet Member for Finance, Innovation and Property, is the elected member for counter fraud activity, which includes the NFI.</p> <p>The NFI forms the core data matching work of the investigation team and is a key element to the counter fraud work undertaken by the authority. Matches assessed as requiring fraud investigation are dealt with by the investigation team as part of their overall investigation work.</p>

		<p>Tonbridge and Malling publicises successful prosecution cases in local press, no matter what their source. Members are provided with annual reports that include specific updates on NFI. These are publicly available reports.</p>
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Agenda Item 9

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

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Agenda Item 10

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

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

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of the Local Government Act 1972.

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Agenda Item 12

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

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