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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

13 January 2017

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, 23rd January, 2017 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

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

MEMBERSHIP

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

Cllr T Bishop
Cllr T Edmondston-Low
Cllr B T M Elks
Cllr S R J Jessel
Cllr Mrs F A Kemp
Cllr S C Perry
Cllr B W Walker

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 5th September, 2016

Present: Cllr V M C Branson (Chairman), Cllr M C Base (Vice-Chairman), Cllr T Bishop, Cllr S R J Jessel, Cllr Mrs F A Kemp and Cllr S C Perry

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

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

Apologies for absence were received from Councillors T Edmondston-Low, B T M Elks and B W Walker

PART 1 - PUBLIC

AU 16/40 DECLARATIONS OF INTEREST

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

AU 16/41 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 20 June 2016 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 16/42 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW 2016/17

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April to July of the current financial year and included a mid-year review of the current financial year's Annual Investment Strategy. Members were reminded of the parameters which aimed to limit the Council's exposure to investment risks and invited to note the review of the Council's long term cash balances.

Reference was made to the recent reduction in Bank Rate to 0.25% and the likely impact on investment income in the current financial year and over the medium term. Attention was drawn to the possible use of property and similar funds to mitigate some of that impact and their potential use for 'new money' derived from the sale of surplus assets.

RECOMMENDED: That the following be commended to the Council:

(1) the action taken by officers in respect of treasury management activity for the period April to July 2016 be endorsed;

(2) the existing parameters intended to limit the Council's exposure to investment risks be retained; and

(3) the review of the Council's long term cash balances and the use of property funds for subsequent consideration by the Audit Committee in January 2017 be noted.

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

AU 16/43 EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE STATEMENT OF ACCOUNTS 2015/16

The report of the Director of Finance and Transformation presented the External Auditors' report on the outcome of the Audit of the Statement of Accounts 2015/16. Members were reminded that, under the Council's constitutional arrangements, the outcome of the audit of the Accounts had to be considered and approved by the Audit Committee before the Accounts were signed off by the Engagement Lead. The officers provided an update on a number of procedural matters which had not been finalised prior to publication of the agenda and the external auditors confirmed that they intended to issue an unqualified audit opinion on the financial statements and value for money conclusions contained in their report.

RESOLVED: That

(1) the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2015/16, as set out at Annex 1 to the report, together with the associated action plan set out at paragraph 1.3.1 of the report, be approved;

(2) the Chairman of the Audit Committee and the Director of Finance and Transformation be granted delegated authority to countersign the Letter of Representation, as set out at Annex 2 to the report and subject to the inclusion of the amendments outlined at the meeting, when the External Auditors are ready to issue their opinion; and

(3) the Chairman be authorised to sign the Accounts in the appropriate place.

MATTERS SUBMITTED FOR INFORMATION

AU 16/44 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

The report of the Chief Audit Executive provided an update on the work undertaken by the Internal Audit and Counter Fraud functions during the period April to July 2016.

RESOLVED: That the report be received and noted

AU 16/45 EXTERNAL QUALITY ASSESSMENT

The report of the Chief Audit Executive outlined the draft results of the External Quality Assessment (EQA) of the Internal Audit services which had been undertaken in May 2016.

RESOLVED: That the report be received and noted.

AU 16/46 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

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

PART 2 - PRIVATE

AU 16/47 INSURANCE CLAIMS HISTORY: APRIL - JULY 2016

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

The report of the Director of Finance and Transformation provided details of the nature and volume of liability and property damage insurance claims submitted during the period April to July 2016.

RESOLVED: That the report be received and noted.

The meeting ended at 8.21 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet

1 APPOINTMENT OF EXTERNAL AUDITORS

To recommend to Cabinet and subsequently Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors.

1.1 Introduction

1.1.1 As noted in previous reports the Local Audit and Accountability Act 2014 (the Act) introduced a new decentralised audit regime where councils could appoint their own external auditors and manage their own audit arrangements.

1.1.2 The Act brought to a close the Audit Commission and established transitional arrangements whereby Public Sector Audit Appointments Limited (PSAA) an independent company established by the Local Government Association, is responsible for the appointment of external auditors and the setting of audit fees.

1.1.3 When the transitional arrangements come to an end on 31 March 2018 there are three broad options open to the Council as reported to the Audit Committee meeting on 5 April 2016 which in summary are:

- Stand-alone appointment – to make a stand alone appointment the Council must set up, consult and take into account the advice of an independent auditor panel. The panel to consist of a majority of independent members (or wholly of independent members) and must be chaired by an independent member.

- Joint Independent Auditor Panel – join with other councils to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent members.

- Opt-in to a Sector Led Body (SLB) – the SLB to be appointed by the Secretary of State. The SLB to negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent auditor panel. PSAA has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015.

1.1.4 At the Audit Committee meeting on 5 April 2016 Members concluded that the SLB is seen as the preferred option. Minute AU 16/18 reads: *That the Local Government Association (LGA) be advised that the Opt-in to a Sector Led Body (Option 3) was identified as the preferred option for the local appointment of external auditors and the setting of audit fees as required under the Local Audit and Accountability Act 2014.*

1.1.5 Why the SLB is seen as the preferred option? It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or jointly. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement. To establish an auditor panel and conduct our own procurement will be a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.

1.1.6 The formal invitation to opt-in to the appointing person arrangements made by PSAA was received on 27 October 2016 with a closing date of 9 March 2017. The length of the appointing period is the five consecutive financial years commencing 1 April 2018. A copy of the PSAA Prospectus **[Annex 1]** and FAQs **[Annex 2]** are attached for information.

1.2 Legal Implications

1.2.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in to a SLB must be made by full Council.

1.3 Financial and Value for Money Considerations

1.3.1 A SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit; and would remove the costs of establishing and maintaining an auditor panel.

1.4 Risk Assessment

1.4.1 As set out in the report, use of PSAA minimises the risks inherent in undertaking our own procurement.

1.5 Equality Impact Assessment

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

1.6 Policy Considerations

1.6.1 Procurement

1.7 Recommendations

1.7.1 Members are asked to **recommend** to Cabinet that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors.

Background papers: contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

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Developing the option of a national scheme for local auditor appointments

Public Sector
Audit Appointments

www.psaa.co.uk

"The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in."

– Lord Porter CBE, Chairman,
Local Government Association

www.psaa.co.uk

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at **generalenquiries@psaa.co.uk**

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Public Sector
Audit Appointments

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

Public Sector
Audit Appointments

"Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions."

– Norma Atlay, President,
Society of District Council Treasurers

"Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency."

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers' Society (PACCTS)

www.psaa.co.uk

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

Public Sector
Audit Appointments

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

"Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process."

– Steven Mair, City Treasurer, Westminster City Council

"In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with."

– Charles Kerr, Chair, Fire Finance Network

www.psaa.co.uk

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

Public Sector Audit Appointments

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

Public Sector
Audit Appointments

Page 24

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

"Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues."

– Andrew Burns, Director of Finance and Resources, Staffordshire County Council

PSAA Ltd
3rd Floor, Local Government House
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London SW1P 3HZ

www.psaa.co.uk

Public Sector
Audit Appointments

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Public Sector Audit Appointments

Appointing person: Frequently asked questions

Question	Response
1. What is an appointing person?	Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies. The 'appointing person' is sometimes referred to as the sector-led body. PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.
2. When will invitations to opt in be issued?	The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.

Public Sector Audit Appointments

Question	Response
	Authorities will have a minimum period of eight weeks to respond to the invitation. In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.
3. Who can accept the invitation to opt in?	In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.
4. Can we join after it has been set up or do we have to join at the beginning?	The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.

Public Sector Audit Appointments

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing generalenquiries@psaa.co.uk and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Public Sector Audit Appointments

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit. Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Public Sector
Audit Appointments

Question	Response
	In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.
13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?	The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.
14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?	The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally

Public Sector Audit Appointments

Question	Response
	maintain a dedicated public sector practice with staff trained and experienced in public sector work. One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean: • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?	PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.
17. What is the timetable for set up and key decisions?	We expect the key points in the timetable to be broadly:

Question	Response
	• establish an overall strategy for procurement - by 31 October 2016; • achieve 'sign-up' of scheme members - by early January 2017; • invite tenders from audit firms - by 31 March 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Public Sector
Audit Appointments

Question	Response
20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?	PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles. PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance &Transformation

Part 1- Public

Matters for Recommendation to Cabinet - Council Decision

1 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2017/18

1.1 The report provides details of investments undertaken and return achieved in the first nine months of the current financial year. The report explores the use of property funds for long term investment and recommends their inclusion in the 2017/18 Annual Investment Strategy. Members are invited to recommend adoption of the Strategy to Cabinet.

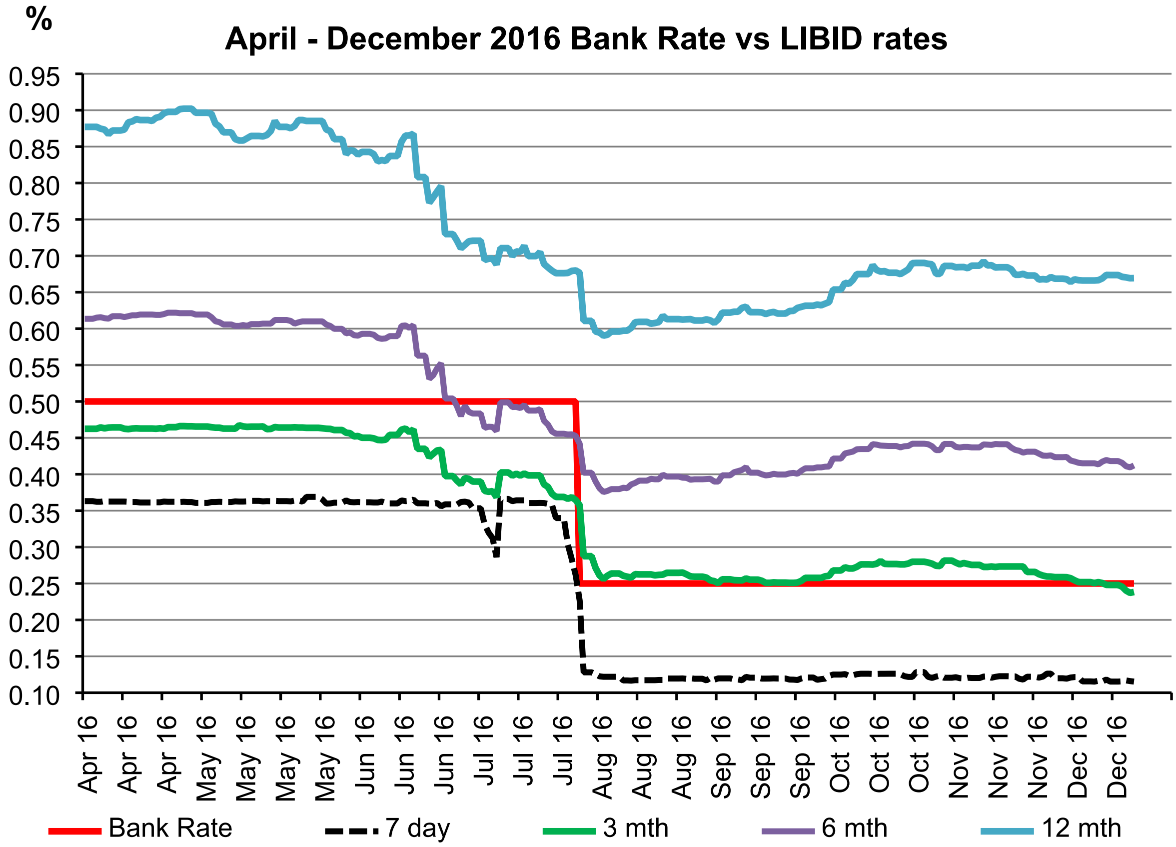
1.1.1 The Local Government Act 2003 requires the Council to 'have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are 'affordable, prudent and sustainable'.

1.1.2 The Act also requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy. The latter sets out the Council's policies for managing its investments and for giving priority to the **security** and **liquidity** of those investments.

1.2 Treasury Management Update

1.2.1 Having satisfied security and liquidity requirements, the Council aims to optimise the yield on its investments. Since the 2008 financial crisis yields have been low reflecting the 0.5% Bank Rate introduced in March 2009. The Bank Rate having remained at 0.5% for seven years was reduced to 0.25% in August 2016. The reduction by the Bank of England was accompanied by other initiatives to help bolster economic activity which included 'Term Funding'. The impact these measures have had on investment rates is demonstrated in the chart below.

1.2.2 Twelve month LIBID, which is indicative of the return one can expect from a one year deposit with a bank or building society, has fallen from circa 0.9% before August 2016 to only 0.65% now. This represents a reduction of some 27% and is mirrored in the returns available for shorter duration investments. Capita's current interest rate forecast anticipates Bank Rate remaining at 0.25% until June 2019 when it is expected to rise.



Source: Capita

1.2.3 Funds available for investment comprise two distinct elements, cash flow surpluses and core cash.

1.2.4 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precepting authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during the course of a financial year and are spent by financial year end. Thus far in 2016/17 cash flow surpluses have averaged £15.5m.

1.2.5 The Authority also has £23m of core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets. The core cash balance has risen since the start of the financial year and includes funds to meet business rate appeals which are expected to be resolved in 2017/18 and 2018/19.

1.2.6 A full list of investments held on 31 December 2016 is provided at **[Annex 1]** and a copy of our lending list of the same date is provided at **[Annex 2]**. The table below provides a summary of funds invested and interest earned at that date.

	Funds invested at 31 Dec 2016 £m	Average duration to maturity Days	Weighted average rate of return %	Interest earned to 31 Dec 2016 £	Gross annualised return %	LIBID benchmark (average since 1 April) %
Cash flow	16.3	15	0.55	74,850	0.64	0.23 (7 Day)
Core cash	23.0	110	0.66	102,950	0.73	0.34 (3 Month)
Total	39.3	71	0.61	177,800	0.69	0.29 (Average)

1.2.7 Interest earned of £177,800 is £22,900 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 40 basis points. The additional income is attributed to higher than expected cash flow and core cash balances at the start of the financial year and the opportunity that this created to invest more funds in higher yielding term deposits. Every opportunity to invest in term deposits in advance of the June referendum was taken (£18m in term deposits at the end of June 2016 compared to £16m June 2015).

1.2.8 The pattern of income generation has changed significantly following the August Bank Rate cut and it is expected that the majority of £22,900 additional income will be eroded by the end of the financial year (31 March 2017). Existing term deposits will either have matured and be retained in deposit accounts / money market funds to meet spending needs or where reinvested in new term deposits, returns will be at the lower rates indicated in paragraph 1.2.2. The 2016/17 revised estimate assumes the same level of investment income as the original estimate at £206,000. A good result given the Bank Rate cut.

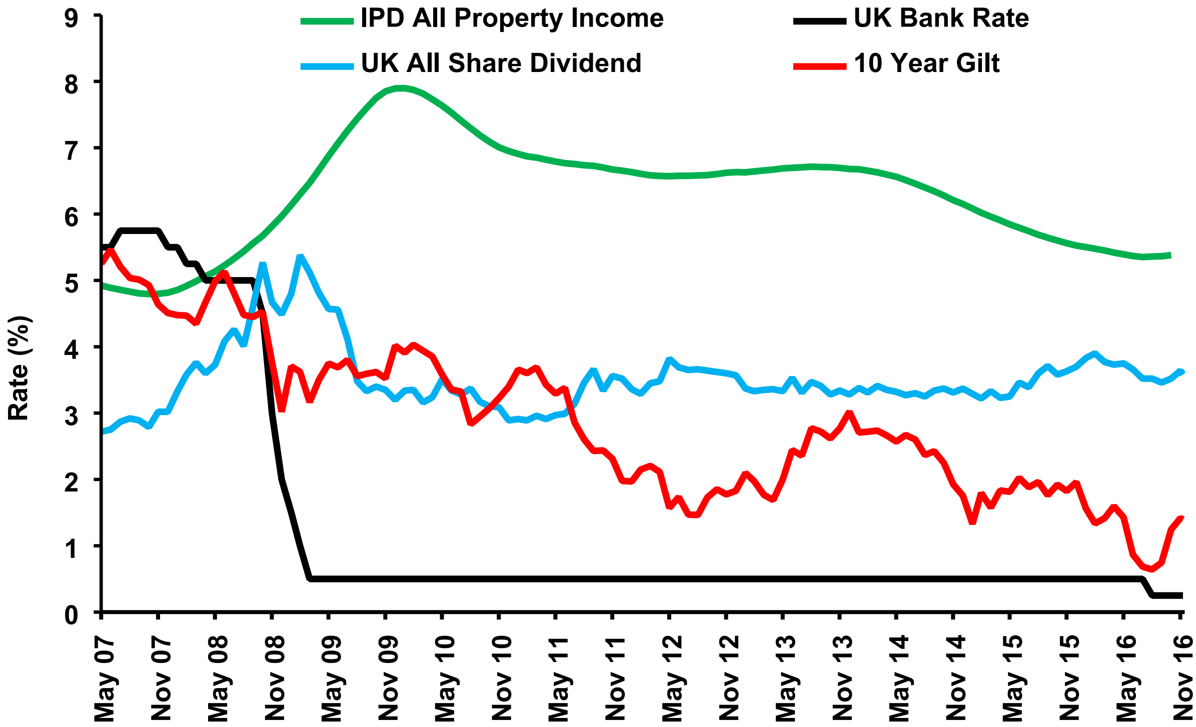
1.2.9 The Council takes advantage of Capita's benchmarking facility which enables performance to be gauged against Capita's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. At 30 September 2016, our return at 0.68% (purple diamond) was above the local authorities' average of 0.62% and relative to the Council's exposure to credit / duration risk that return was at the upper end of Capita's predicted return (just below the upper boundary indicated by the green diagonal line). The Council's risk exposure was slightly above the local authorities' average. As Members will recall from previous treasury reports the result is typical of the enhanced performance achieved following the transfer of all core cash investments to in-house management in August 2014.

1.3 Annual Investment Strategy for 2017/18

1.3.1 In response to actual and anticipated reductions in revenue support from Government, the Council is progressing a Savings and Transformation strategy. Part of that strategy includes identifying new income streams and enhancing existing ones where feasible. The Treasury Management report to Audit Committee in September explained that rather than a cut in Bank Rate our financial projections (presented to Council last February) had assumed the next move in Bank Rate would be an increase. The report also explained that whilst the August cut would have little impact on investment income relative to budget this financial year, the impact over the medium term was likely to be significant. A number of actions were identified to mitigate some of that impact: explore the risks and benefits associated with long term investment, review cash balances that might be available for such an investment and; review term deposit investment duration.

1.3.2 **Long term Investment**. Investment in equities, bonds or property is expected to produce an annual income stream and over time, capital appreciation. Whilst the income stream (dividends, interest or rents) will be received at regular intervals during the year any capital appreciation will only be realised when the investment is redeemed. Subject to an understanding and acceptance of the risks, reducing the Council's current revenue shortfall is best served by selecting the asset class that maximises income.

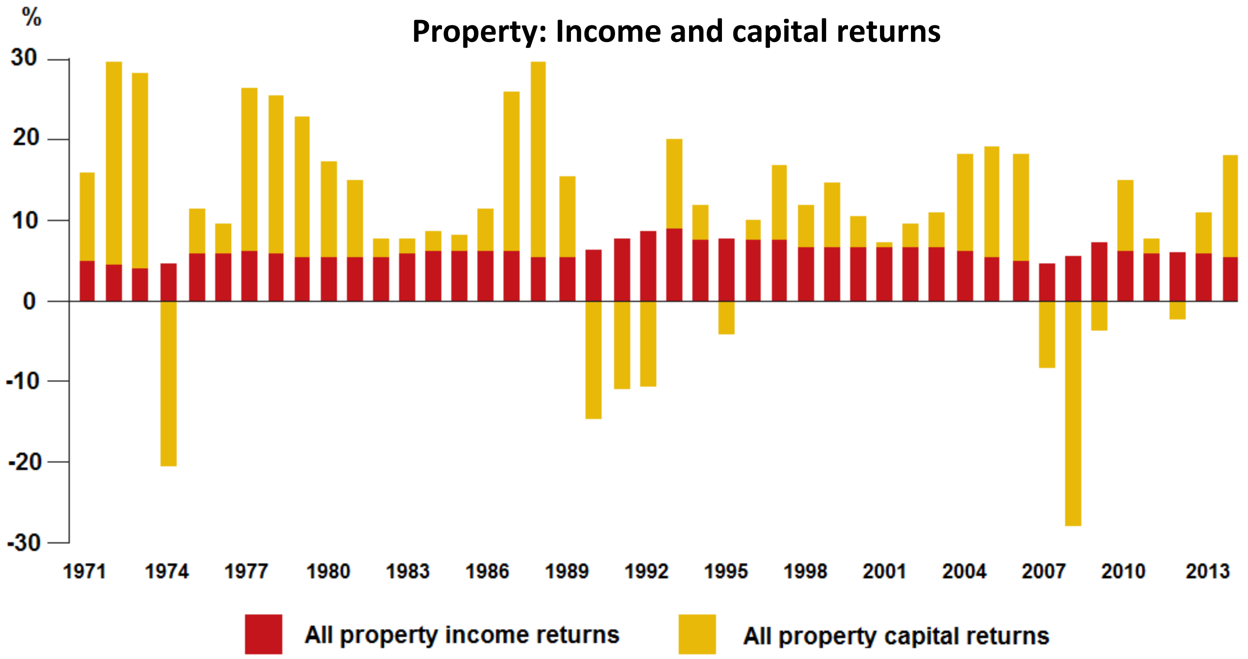
Income return across different asset classes



Source: Capita

1.3.3 In the ten years to November 2016 the annual income from property averaged 6.3% and dividends from equities averaged 3.5%. Interest from Gilts has shown greater variability (influenced by interest rate and inflation expectations) but in the last five years has averaged 1.9%. Purely from an income perspective property is an obvious choice.

1.3.4 Whilst the rental income from property is relatively stable, capital appreciation and depreciation exhibits a strong correlation to GDP. When the economy is in decline (recession) the capital value of property can fall significantly (-20% in 1974; -35% in 1990 to 1992 and; -40% in 2007 to 2009).



Source: MSCI, as included in 'Understanding UK Commercial Property Investments' published by the Investment Property Forum (IPF) 2015

1.3.5 Acquiring a property, whether directly or indirectly through participation in a fund, involves a significant outlay in taxes (mainly stamp duty), legal and other fees. Selling property also involves fees and takes time. Both sets of cost result in high entry and exit fees, circa 6% and 2% respectively, which means property investment is only viable if those costs can be spread over a number of years (minimum of five years). At some point during the investment a fall in capital value may arise from a downturn in the economy reducing the overall net gain from the investment if it were redeemed or delay redemption to avoid incurring a loss. A property investment is only appropriate if **one accepts and can tolerate the volatility in capital value; is able to invest over a lengthy period of time and; can be flexible about the timing of any redemption in the future**.

1.3.6 Ordinarily investment in property would be classified as capital expenditure. Essentially this means that any sums invested would need to feature in the authority's capital plan and redemption in the future would be deemed a capital receipt. Capital receipts can only be applied to repay borrowing (the Council is debt free) or fund new capital expenditure. However, investment in a number of property funds can be treated as revenue expenditure under the Local Authorities

(Capital Finance and Accounting)(Amendment)(England) Regulations 2010 where the investment scheme is an investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority investment schemes).

1.3.7 The Authority currently has a core cash balance of £23m (paragraph 1.2.5 above) which includes the general revenue reserve and capital reserve. The lion's share of these reserves is being consumed over the next few years to assist the Authority achieve a balanced budget. The Council's medium term financial strategy (MTFS) which is used to identify savings targets is constructed using a number of criteria. One of which is to maintain a minimum general revenue reserve balance of at least £2m throughout the ten year period of the MTFS. Through good financial management, the Authority generally delivers a small surplus against budget at year-end. Those surpluses are invariably used to create earmarked reserves to meet a specific purpose or applied to existing reserves to support expenditure more generally. The Council also receives capital funding on an ad-hoc basis by way of developer contributions. Whilst year-end surpluses / external funding can't be relied upon (hence we don't budget for them) they do represent an opportunity to use some or all of the minimum general revenue reserve balance for a property fund investment. The ten year period of the MTFS and its regular review, provides the opportunity to undertake a long-term investment and signal the timing of a partial or full redemption in the future. The impact of the 2017/18 Local Government Finance Settlement will need to be factored into the assessment of how much of the minimum general revenue reserve balance can be invested and will be determined as we progress through the current budget setting process.

1.3.8 There are numerous property funds available that have: a track record that precedes the 2008 financial crisis; a diverse property portfolio (mix of retail, office and industrial / warehouse premises); a portfolio in excess of £500m; a client base of over 50 investors and; where investment is not classified as capital expenditure. The detailed analysis required to identify the most appropriate fund will be time consuming and is likely to span several months to complete. Whilst this can be undertaken in-house there is merit in engaging our current treasury advisor to assist with the process. Capita offer a fund selection service covering fund investment strategies; performance analysis; portfolio composition; liquidity risk and; fee analysis. The research results in a short list of funds that meet our criteria and who can then be invited for interview prior to a final decision being made.

1.3.9 Capita have reviewed the text at paragraphs 1.3.2 to 1.3.5 above and comment: income from 'property is less volatile than shares and greater value than gilts and is an asset class that is suitable for local authorities to diversify into, if they do not already have a large property estate on balance sheet'. If Members support a property fund investment the 2017/18 estimates will need to be amended (at the revised estimate stage) to reflect the additional income that can be anticipated (circa £40,000 per annum per £1m invested) and a one-off addition to the external fees budget (circa £7,500). The Annual Investment Strategy will also need to be amended to permit investment in a non-credit rated property fund and establish a cash limit for such investments (paragraph 1.3.15, bullet point 8).

1.3.10 Whilst investment would most likely take place early in the new financial year the timing would be influenced by market reaction to the triggering of Article 50 (expected before the end of March 2017) and other macro and global economic developments.

1.3.11 **Term deposit duration**. Our advisor's assessment of counterparty creditworthiness assigns financial institutions to a duration band. The bands for those institutions considered appropriate for local authority investment range from 100 days to five years. Institutions which are considered inappropriate for investment are assigned nil duration. The assessment incorporates a market view of risk using credit default swap data. A credit default swap (CDS) can be likened to insurance taken out by investors to guard against the risk of default. The aggregate value of CDS trades reached a peak at the height of the Eurozone sovereign debt crisis in December 2011. Since then, the European Central Bank has introduced measures to ease bank liquidity, established a mechanism to contain sovereign bond yields and made progress on a European Banking Union. The aggregate value of CDS trades has been on a downward trajectory since December 2011 and is now broadly in line with levels pre the 2008 financial crisis.

1.3.12 In response to interpretational issues around the use of CDS data by our treasury advisors, a more flexible approach to Capita's duration assessment was introduced in the 2014/15 Annual Investment Strategy. The strategy allowed up to three months to be added to Capita's suggested 'post CDS duration' for UK institutions (e.g. a nine month term deposit could be placed against a Capita suggested duration of six months).

1.3.13 The discretion has been used on numerous occasions over the last three years. Its use in the current financial year is detailed in **[Annex 1]** by comparing the figures in 'Capita's Suggested Post CDS Duration' column with those in the actual 'Investment Duration' column. The use of that discretion is also a contributory factor to the Council's above average performance revealed in the quarterly benchmarking data **[Annex 3]**. That data also measures the Council's exposure to risk (combination of duration and credit quality) which generally hovers around the local authorities average each quarter. There is scope to increase the Council's exposure to duration risk yet still remain close to our peer average.

1.3.14 Where the rate on offer by a UK bank is considered exceptional relative to other UK Banks and provided the market perception of risk attributed to the bank is below the average CDS for all other banks, the 2017/18 strategy (paragraph 1.3.15, bullet point 5) allows up to six months to be added to Capita's post CDS duration assessment. The combined duration (Capita's suggestion plus the six month discretion) must not exceed twelve months in total. Where the 'added' flexibility is applied, counterparty exposure will also be reduced from the standard

20% to 10%. These exceptions will ensure the added flexibility can only be applied to a small proportion of the investment portfolio.

1.3.15 **Risk parameters**. The strategy sets out the parameters that 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. Except where indicated by ***bold italic*** text, the 2017/18 Annual Investment Strategy **[Annex 4]** adopts the same risk parameters as currently approved. In summary these are :

- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).

- Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.

- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds (25% of funds for part state owned UK Banks).

- In selecting suitable counterparties for overnight deposits and deposits up to 2 years in duration, 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 (based on credit ratings alone). 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 post CDS recommendation. For UK financial institutions Capita's duration recommendation can be enhanced by up to ***six*** months subject to the combined duration (Capita recommendation plus the enhancement) not exceeding 12 months. The Council's Treasury Management Practices will be modified to ensure that: where duration is being enhanced by more than three months the bank's CDS must be below the average for all other banks at the time of placing the investment; the discretion is only to be applied to take advantage of an exceptional offer and; counterparty exposure in respect of the additional enhancement (plus 6 months instead of the standard plus three months for a UK institution) will be limited to 10% of cash flow/core cash.

- Money Market funds should be rated Fitch AAAmmf or equivalent and exposure limited to no more that 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.

- ***Exposure to non-credit rated property funds is limited to no more than 40% of available cash balances (20% limit per fund). No limit applies***

where invested funds are derived from new resources i.e. proceeds from selling existing property.

- The strategy also limits the type of instrument (e.g. fixed term deposits, certificates of deposit, commercial paper, floating rate notes, treasury bills, etc.) that can be used and establishes a maximum investment duration for Gilts of 10 years and 2 years for all other types of investment other than property.

1.3.16 At the present time an appropriate level of diversification is achieve through access, both directly and via brokers, to an adequate number of high credit rated financial institutions. Our cash flow forecasting aims to ensure the Council has sufficient liquidity to meet payment obligations at all times. Excess liquidity is avoided by using term deposits and other instruments to generate additional yield when daily cash surpluses permit. Cash flow surpluses can and are transferred to core cash to enable longer duration investments to be undertaken than would otherwise be the case.

1.3.17 The 2017/18 Strategy **[Annex 4]** reflects the current economic environment, Capita's latest interest rate forecast and incorporates the risk parameters summarised in paragraph 1.3.15.

1.4 MiFID II

1.4.1 The Financial Conduct Authority (FCA) consultation on proposals to implement the European Union's second Markets in Financial Instruments Directive (MiFID II) ended on 4 January. The directive impacts on the way local authorities access financial services provided by banks, advisors, brokers and fund managers.

1.4.2 Under the existing directive the Council enjoys 'professional client' status. Under MiFID II, all local authorities will be reclassified as 'retail clients' (the same as a private individual) but will be able to opt-up to professional status if they meet certain quantitative and qualitative criteria. The proposed quantitative threshold for opt-up is a financial instruments portfolio exceeding £15m. The limit, intended to exclude parish and town councils from the opt-up, will also exclude a significant number of district councils.

1.4.3 At the present time the value of the Council's portfolio is substantially higher that the proposed threshold. However, our projected use of both revenue and capital reserves is likely to see our balances dip below the threshold in a few years' time. A response to the FCA's consultation questions is provided at **[Annex 5]**.

1.5 Money Market Fund Reform

1.5.1 A press release, issued in November, announced the European Parliament, Commission and Council, after lengthy negotiation, had agreed regulatory changes to Money Market Funds (MMFs) operating in the European Union (i.e. those used by this Council). 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 AAA credit rated product and; ensure our peak monthly cash balances are disbursed across a broad range of counterparties.

1.5.2 The regulatory changes include provision for a new class of LNAV (low volatility) fund to be created which will most likely be used by fund providers to replace the existing CNAV (constant net asset value) funds use by the Council. The new funds will be subject to redemption fees and or restrict redemptions at times of heightened market stress. It is expected that the LNAV funds will continue to be credit rated by the rating agencies. Fund providers will need to comply with the regulatory changes during the second half of 2018. Whilst change is inevitable it is unlikely to impact on our cash management operation during 2017/18. Members will be updated as fund providers developed their responses to the regulatory changes allowing us to evaluate the associated risks.

1.6 Legal Implications

1.6.1 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.

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

1.7 Financial and Value for Money Considerations

1.7.1 The Bank Rate having remained at a historic low of 0.5% for over 7 years was cut to 0.25% in August 2016. Capita, our treasury advisors anticipate the Bank Rate will remain at this level until June 2019.

1.7.2 At the end of December investment income for 2016/17 is £22,900 better than budget for the same period. However, the August Bank Rate cut, together with other measures introduced by the Bank of England, has had a significant downward impact on investment returns going forward. As a consequence, investment income for the 2016/17 financial year as a whole is expected to return to budget at £206,000.

1.7.3 Following the Bank Rate cut, income for 2017/18 and over the medium term will be significantly lower than anticipated in the financial projections presented to Council in February 2016. Investment income for 2017/18 is now forecast to be £126,000 compared to £296,000 (February 2016).

1.7.4 The enhanced income from a property fund investment will mitigate some of the impact a lower Bank Rate will have on investment income. Whilst the annual income stream from property exhibits stability, capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy capital values may fall significantly. As a consequence the duration of a property based investment cannot be determined with certainty.

1.7.5 Investment performance is monitored against relevant benchmarks and compared to other local authorities using benchmarking data provided by Capita.

1.8 Risk Assessment

1.8.1 Capita are employed to provide advice on the content of the Treasury Management and Annual Investment Strategy and this, coupled with a regular audit of treasury activities ensures that the requirements of the Strategy and the Treasury Policy Statement adopted by this Council are complied with.

1.8.2 Credit ratings remain a key tool in assessing risk. It is recognised that their use should be supplemented with sovereign ratings and market intelligence. Appropriate sovereign, group and counterparty limits are established to ensure an appropriate level of diversification.

1.8.3 In the light of these safeguards and stringent Treasury Management Procedures it is considered that any risks to the authority implicit in the 2017/18 Strategy have been minimised.

1.9 Equality Impact Assessment

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

1.10 Recommendations

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

1) note the treasury management position as at 31 December 2016;

2) endorse the use of property funds for long term investment;

3) subject to the caveats identified in paragraph 1.3.14 allow up to six months to be added to Capita's suggested duration for UK institutions, subject to overall duration not exceeding 12 months;

4) adopts the Annual Investment Strategy for 2017/18 set out at **[Annex 4]**.

Background papers: contact: Mike Withey

Capita Interest Rate Forecast (November 2016) and Economic Commentary

Sharon Shelton
Director of Finance & Transformation

Annex 1

Investment Summary as at 31 December 2016

Counterparty	Sovereign	Fitch Credit rating: Long Term	Fitch Credit rating: Short Term	Capita Suggested Post CDS Duration Limit	Investment: Start Date	Investment: End Date	Investment: Duration	Investment: Amount Invested £	Investment: Return %	Investment: Proportion of total %	Instrument type	Core Fund £	Cash Flow £
Bank of Scotland	UK	A+	F1	6 months	25/04/2016	25/01/2017	9 months	1,000,000	0.90%		Fixed deposit	1,000,000	
Bank of Scotland	UK	A+	F1	6 months	21/10/2016	21/07/2017	9 months	2,000,000	0.80%		Fixed deposit	2,000,000	
Bank of Scotland Total								**3,000,000**		7.64%			
Barclays Bank	UK	A	F1	6 months	11/08/2016	11/05/2017	9 months	3,000,000	0.55%		Fixed deposit	3,000,000	
Barclays Bank	UK	A	F1	6 months	26/09/2016	26/06/2017	9 months	1,000,000	0.58%		Fixed deposit	1,000,000	
Barclays Bank Total								**4,000,000**		10.19%			
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	30/12/2016	03/01/2017	n/a	6,000,000	0.34%		Call - MMF	2,000,000	4,000,000
BNP Paribas MMF Total								**6,000,000**		15.28%			
Deutsche MMF	n/a	AAA	mmf	5 years	30/12/2016	03/01/2017	n/a	3,256,000	0.31%		Call - MMF		3,256,000
Deutsche MMF Total								**3,256,000**		8.29%			
Goldman Sachs Int'l Bank	UK	A	F1	6 months	01/06/2016	01/03/2017	9 months	2,000,000	0.87%		Fixed deposit		2,000,000
Goldman Sachs Int'l Bank	UK	A	F1	6 months	09/09/2016	09/06/2017	9 months	3,000,000	0.68%		Fixed deposit	3,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	20/12/2016	20/09/2017	9 months	1,000,000	0.76%		Fixed deposit	1,000,000	
Goldman Sachs Int'l Bank Total								**6,000,000**		15.28%			
Lloyds Bank	UK	A+	F1	6 months	25/04/2016	25/01/2017	9 months	1,000,000	0.90%		Fixed deposit	1,000,000	
Lloyds Bank	UK	A+	F1	6 months	13/07/2016	13/01/2017	6 months	250,000	0.80%		Fixed deposit		250,000
Lloyds Bank	UK	A+	F1	6 months	25/07/2016	25/01/2017	6 months	500,000	0.80%		Fixed deposit		500,000
Lloyds Bank	UK	A+	F1	6 months	02/08/2016	02/02/2017	6 months	250,000	0.80%		Fixed deposit		250,000
Lloyds Bank	UK	A+	F1	6 months	14/10/2016	14/07/2017	9 months	1,000,000	0.80%		Fixed deposit	1,000,000	
Lloyds Bank Total								**3,000,000**		7.64%			
NatWest Bank Call Account	UK	BBB+	F2	1 year	30/12/2016	03/01/2017	n/a	10,000	0.01%		Call		10,000
National Westminster Bank Total								**10,000**		0.03%			
Nationwide Building Society	UK	A	F1	6 months	11/04/2016	11/01/2017	9 months	2,000,000	0.84%		Fixed deposit		2,000,000
Nationwide Building Society Total								**2,000,000**		5.09%			
Santander UK Plc	UK	A	F1	6 months	30/12/2016	03/01/2017	n/a	6,000,000	0.55%		Call	3,000,000	3,000,000
Santander UK Plc Total								**6,000,000**		15.28%			
Standard Chartered Bank	UK	A+	F1	100 days	27/10/2016	27/04/2017	6 months	2,000,000	0.64%		Fixed deposit	2,000,000	
Standard Chartered Bank Total								**2,000,000**		5.09%			
Toronto Dominion Bank	Canada	AA-	F1+	1 year	18/03/2016	17/03/2017	1 year	1,000,000	0.84%		CD	1,000,000	
Toronto Dominion Bank	Canada	AA-	F1+	1 year	14/04/2016	13/04/2017	1 year	1,000,000	0.88%		CD	1,000,000	
Toronto Dominion Bank	Canada	AA-	F1+	1 year	12/05/2016	10/02/2017	9 months	1,000,000	0.80%		CD		1,000,000
Toronto Dominion Bank	Canada	AA-	F1+	1 year	26/08/2016	26/05/2017	9 months	1,000,000	0.54%		CD	1,000,000	
Toronto Dominion Bank Total								**4,000,000**		10.19%			
					Total invested			**39,266,000**		**100.00%**		**23,000,000**	**16,266,000**

Number of investments	22	**Average investment value £**			1,785,000
Number of counter parties	11	**Average counter party investment £**			3,570,000
Group exposures:		**Core £**	**Cash £**	**Combined £**	**%**
RBS + National Westminster (UK Nationalised maximum 25%)		-	10,000	10,000	0.03
Bank of Scotland + Lloyds (maximum 20%)		5,000,000	1,000,000	6,000,000	15.28

Total non-specified investments should be less than 60% of Core Funds	0.00%

CD = Certificate of Deposit

n/c = no colour / no new investment

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Tonbridge and Malling Borough Council Lending List

Checked against Capita Duration Matrix dated 30/12/16

Minimum investment criteria is Capita Green (100 days) Duration Band
(entry point broadly equates to Fitch A-, F1 unless UK nationalised / semi-nationalised).

Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	Exposure Limits			Capita Duration [2]	
					Cash Flow	Core Fund	Combined	Credit Rating	Post CDS
Bank of Montreal	Canada	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Toronto Dominion Bank	Canada	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Deutsche Bank	Germany	AAA	A-	F1	£0m	£0m	£0m	100 days	n/c
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
ING Bank	Netherlands	AAA	A+	F1	£3m	£3m	£6m	6 months	6 months
Nordea Bank AB	Sweden	AAA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Svenska Handelsbanken AB	Sweden	AAA	AA	F1+	£3m	£3m	£6m	12 months	12 months
Bank of Scotland (Group limit with BOS and Lloyds of £6m)	UK	AA	A+	F1	£1m	£5m	£6m	6 months	6 months
Barclays Bank	UK	AA	A	F1	£2m	£4m	£6m	6 months	6 months
Goldman Sachs Int'l Bank	UK	AA	A	F1	£2m	£4m	£6m	6 months	6 months
HSBC Bank	UK	AA	AA-	F1+	£3m	£3m	£6m	12 months	12 months
Lloyds Bank (Group limit with BOS and Lloyds of £6m)	UK	AA	A+	F1	£1m	£5m	£6m	6 months	6 months
Santander UK	UK	AA	A	F1	£3m	£3m	£6m	6 months	6 months
Standard Chartered Bank	UK	AA	A+	F1	£3m	£3m	£6m	6 months	100 days
Coventry Building Society	UK	AA	A	F1	£3m	£3m	£6m	6 months	6 months
Nationwide Building Society	UK	AA	A	F1	£3m	£3m	£6m	6 months	6 months
National Westminster Bank [3] (Group limit with Nat West and RBS of £7.6m)	UK	AA	BBB+	F2	£3.8m	£3.8m	£7.6m	12 Months	12 Months
The Royal Bank of Scotland [3] (Group limit with Nat West and RBS of £7.6m)	UK	AA	BBB+	F2	£3.8m	£3.8m	£7.6m	12 Months	12 Months
UK Debt Management Office including Treasury Bills	UK	AA	N/A	N/A	No limit	No limit	No limit	N/A	N/A
UK Treasury (Sovereign Bonds-Gilts)	UK	AA	N/A	N/A	No limit	£7.5 / 15m	£7.5 / 15m	N/A	N/A
UK Local Authorities	UK	AA	N/A	N/A	£3m	£3m	£6m	N/A	N/A

[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires sovereigns to be rated at least AA-. Non-UK 20% sovereign limit equals combined limit quoted above (£6m).
[2] **All deposits overnight** unless otherwise **approved in advance** by the Director of Finance and Transformation **AND** Chief Financial Services Officer. If other than overnight, duration for non-UK entities must not exceed Capita's post CDS duration assessment. For UK entities, duration may be extended by up to three months **based on credit ratings alone** subject to a maximum combined duration of 12 months.
[3] UK nationalised / semi-nationalised.

Money Market Funds

Minimum investment criteria one of AAA-mf, AAAmmf or AAAm

Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Blackrock	AAA-mf	-	AAAm	£4m	£2m	£6m
BNP Paribas	-	-	AAAm	£4m	£2m	£6m
Goldman Sachs	AAA-mf	AAAmmf	AAAm	£4m	£2m	£6m
Deutsche Fund	AAA-mf	AAAmmf	AAAm	£4m	£2m	£6m
Standard Life (Ignis)	-	AAAmmf	AAAm	£4m	£2m	£6m
Morgan Stanley	AAA-mf	AAAmmf	AAAm	£4m	£2m	£6m
Prime Rate	-	AAAmmf	AAAm	£4m	£2m	£6m
Insight Liquidity Group limit for IL and ILP of £6m	-	AAAmmf	AAAm	£4m	£2m	£6m

Enhanced Cash Funds

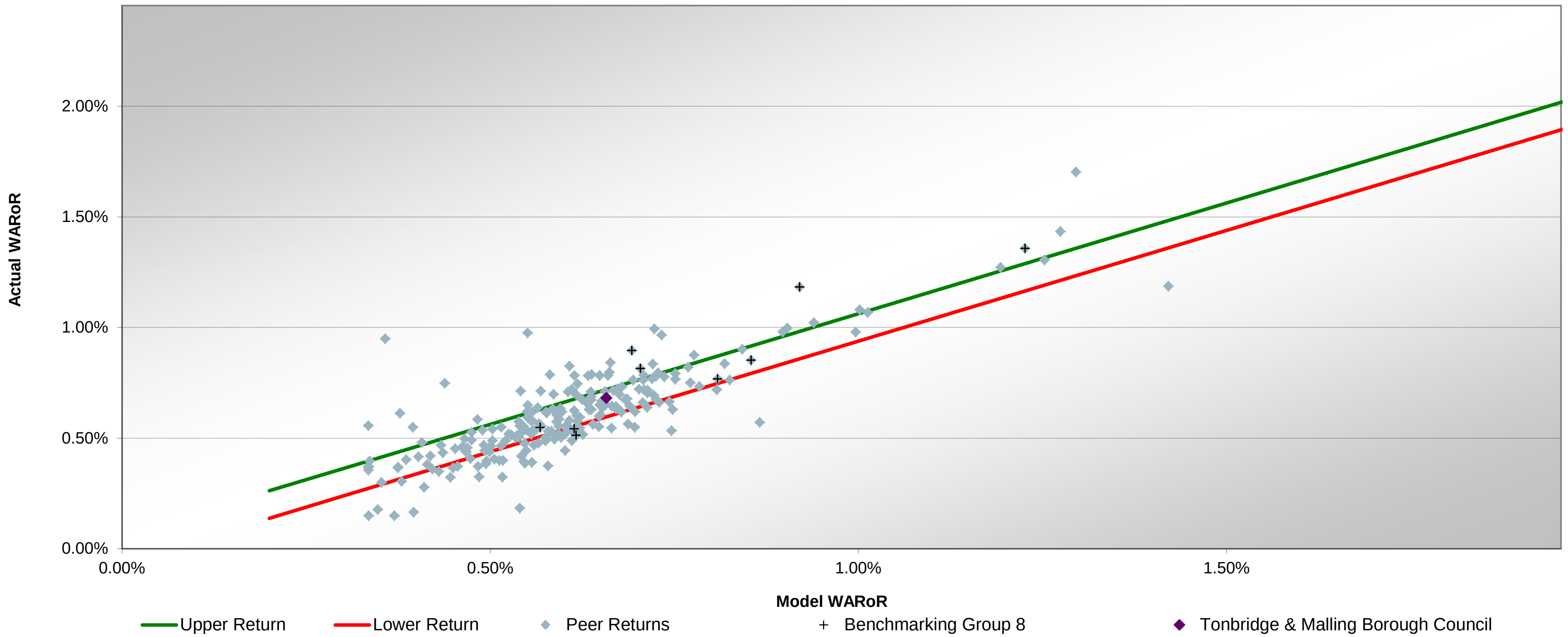
Minimum investment criteria AAA

Fund Name	Moody	Fitch	S&P	Exposure Limit		
				Cash Flow	Core Fund	Combined
Insight Liquidity Plus Group limit for IL and ILP of £6m	-	-	AAAf /S1	£1.5m	£1.5m	£3m

Approved by Director of Finance & Transformation **3rd January 2017**	No Change

Tonbridge & Malling Borough Council

Population Returns against Model Returns l·ű ол {ŜǈűŜΥōŜ\ нлмс



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.68%	0.66%	0.02%	0.60%	0.72%	Inline

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Treasury Management and Annual Investment Strategy 2017/18

1 Introduction

1.1 Treasury management is defined as:

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

1.2 The strategy covers:

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

2 Statutory and regulatory requirements

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

2.2 The Act requires the Council to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the **security** and **liquidity** of those investments.

2.3 The Department of Communities and Local Government has issued revised investment guidance which came into effect from 1 April 2010. There were no major changes required over and above the changes already required by the revised CIPFA Treasury Management Code of Practice 2009 (The Code of Practice).

2.4 The Code of Practice was adopted by this Council on 18 February 2010. In preparing this strategy due regard has also been given to the Code's subsequent revisions.

2.5 The primary requirements of the Code are as follows:

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

2.6 The scheme of delegation and role of the Section 151 officer that give effect to these requirements are set out at **[Appendix 1]**.

3 Balanced budget requirement

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

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

4 Prudential and treasury indicators

4.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. In England and Wales the Authorised Limit represents the legislative limit specified in the Act.

4.2 The Council must have regard to the Prudential Code when setting the 'Authorised Limit', which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

4.3 Whilst termed an 'Affordable Borrowing Limit', the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The 'Authorised Limit' is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4.4 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The original 2001 Code was adopted on 30 September 2003 and the revised 2009 Code was adopted by the full Council on 18 February 2010. Subsequent Code amendments are also complied with.

4.5 Prudential and Treasury Indicators relevant to setting an integrated treasury management strategy are set out in **[Appendix 2]**.

5 Borrowing requirement

5.1 Other than for cash flow purposes and then within the limits set out at **[Appendix 2]** borrowing will not be necessary. All capital expenditure in 2017/18 will be funded from the Revenue Reserve for Capital Schemes, grants, developer contributions and capital receipts arising from the sale of assets.

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

6 Current treasury position

6.1 The Council is debt free and as such the overall treasury position at 31 December 2016 comprised only investments which totaled £39m generating an average return of 0.61%.

7 Prospects for interest rates

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

- 2016/ 2017 0.25%
- 2017/ 2018 0.25%
- 2018/ 2019 0.25%
- 2019/ 2020 0.75%

7.2 The Monetary Policy Committee, (MPC), cut the Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut the Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early July. Consequently, Bank Rate was not cut again in November or December and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if economic growth dips significantly. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Capita conclude that a rise in Bank Rate to 0.50% is unlikely before quarter 2 2019, after those negotiations have been completed, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.

7.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

7.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the US rates over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure will be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

7.5 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

7.6 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

7.7 Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Outcome of national polls (Dutch general election March 2017, French presidential election April/May 2017, French National Assembly election June 2017 and the German Federal election August/October 2017).
- A resurgence of the Eurozone sovereign debt crisis and stresses arising from disagreement between EU countries on free movement of people, management of immigration and threats from terrorism.
- Weak capitalisation of some European banks.
- Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.
- UK economic growth and increases in inflation are weaker than currently anticipated.
- Weak growth or recession in the UK's main trading partners - the EU and US.

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

- UK inflation rising to significantly higher levels than in the wider EU and in the US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts)

7.9 A more detailed view of the current economic background, provided by Capita, is contained in **[Appendix 4]**.

8 Investment policy

8.1 The Council's investment policy has regard to the CLG's Guidance on Local Government Investments (the Guidance) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Council's investment priorities will be security first, liquidity second, and then yield.

8.2 In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

8.3 Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

8.4 Other information sources used will include the financial press, share price and other information relating to the banking sector in order to establish a robust scrutiny process on the suitability of potential investment counterparties.

8.5 Investment instruments identified for use are listed in **[Appendix 5]** under 'specified' and 'non-specified' investment categories. Counterparty limits are detailed in section 10 below.

9 Creditworthiness policy

9.1 The creditworthiness service provided by Capita has been progressively enhanced over the last few years and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings are supplemented using the following overlays:

- Credit watches and credit outlooks from credit rating agencies;

- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

9..2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to inform the duration of an investment and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments.

9.3 The selection of counterparties with a high level of creditworthiness is achieved by selecting institutions down to a minimum durational band within Capita's weekly credit list of potential counterparties (worldwide). Subject to an appropriate sovereign and counterparty rating the Council uses counterparties within the following durational bands:

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

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

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

- If a downgrade results in the counterparty no longer meeting the Council's minimum criteria its use for new investment is withdrawn immediately.

- In addition to the use of credit ratings the Council is advised of movements in Credit Default Swap data against the iTraxx benchmark and other market data on a daily basis. Extreme market movements may result in a scaling back of the duration assessment or removal from the Councils lending list altogether.

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

10 Country, counterparty and group exposure limits

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

10.2 Avoidance of a concentration of investments in too few counterparties or countries is a key to effective diversification and in this regard the limits set out below are thought to achieve a prudent balance between risk and practicality and are applicable to cash flow and core fund investment.

Country, Counterparty and Group exposure	Maximum Proportion of Investment Portfolio
UK Sovereign (subject to a minimum rating of AA-)	100%
Each non-UK Sovereign rated AA- or better	20%
Group limit excluding UK nationalised / part nationalised banks	20%
Each counterparty rated Fitch A-, F1 (green excluding CDS using Capita's credit methodology) or better	20%
Each UK nationalised or part nationalised bank / group	25%
Each AAA multilateral / supranational bank	20%
Each AAA rated enhanced cash fund / government liquidity fund / gilt fund subject to maximum 20% exposure to all such funds	10%

Each money market fund rated Moody's AAAmf or Fitch AAAmmf, or Standard & Poor's AAAm	20%
Non-specified investments over 1 year duration	60%
Each non-rated property fund used for long term investment subject to a maximum 40% exposure to all such funds (exposure calculated at the time of deposit)	**20%**

10.3 Cash flow balances vary depending on the timing of receipts and payments during the month and from month to month. The investment limits identified in paragraph 10.2 will be based on an estimate of the expected average daily cash flow balance at the start of the financial year augmented by core cash balances.

11 Cash flow and core fund investment

11.1 Funds available for investment are split between cash flow and core cash. Cash flow funds are generated from the collection of council tax, business rates and other income streams. They are consumed during the financial year to meet payments to precepting authorities and government (NNDR contributions) and to meet service delivery costs (benefit payments, staff salaries and suppliers in general). The consumption of cash flow funds during the course of a financial year places a natural limit on the maximum duration of investments (up to one year). Core funds comprise monies set aside in the Council's revenue and capital reserves and are generally available to invest for durations in excess of one year.

11.2 **Cash flow investments**. The average daily cash flow balance throughout 2017/18 is expected to be £15m with a proportion available for longer than three months. Cash flow investments will be made with reference to cash flow requirements (liquidity) and the outlook for short-term interest rates i.e. rates for investments up to 12 months. Liquidity will be maintained by using bank deposit accounts and money markets funds. Where duration can be tolerated, additional yield will be generated by utilising term deposits with banks and building societies and enhanced cash funds. Cash balances available for more than 3 months may be transferred to the core fund portfolio if a better overall return for the Council can be achieved by doing so.

11.3 In compiling the Council's estimates for 2017/18 a return on cash flow investments of 0.35% has been assumed. This return is consistent with that achieved on overnight deposits since the August 2016 cut in Bank Rate.

11.4 **Core fund investments**. Historically the Council's core funds have been managed by an external fund manager. All core funds were returned to the Council for in-house management during 2014/15. The core fund balance is diminishing as a proportion is consumed each year (approximately £2m per annum) to support the Council's revenue budget and capital expenditure plans. The average core fund balance during 2017/18 is expected to be £14m.

11.5 The Council will avoid locking into longer term deals while investment rates continue their current low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and are within the risk parameters set by the Council.

11.6 In compiling the Council's estimates for 2017/18 a return on core fund investments of 0.55% has been assumed. As above, this reflects the marked downshift in returns offered by banks and other institutions since August 2016. Subject to the credit quality and exposure limits outlined in paragraph 10.2, liquidity and yield will be achieved by a mix of investments using predominantly fixed term deposits and certificates of deposit. Notice accounts and enhanced cash funds will also be used if these offer favourable returns relative to term deposits.

12 Long term investment.

12.1 The strategy includes provision (paragraph 10.2 and detailed in Appendix 5) to undertake long term investment in property through a collective investment scheme (fund). Investment in such schemes typically involves a minimum commitment of 5 years to recoup entry and exit fees. To mitigate the risk that capital values may fall due to changes in economic activity, investment duration cannot be determined with certainty at the time the investment commences. As a consequence any cash balances applied to such an investment must be available for the long term and there must be flexibility over the timing of redemption(s) in the future.

12.2 A detailed evaluation of the funds asset quality, market risk, leverage, redemption constraints, management and governance arrangements will be undertaken in advance of any investment taking place. Any sums invested will be reported at regular intervals with income received and changes in capital value identified separately.

13 Year end investment report

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

14 Policy on the use of external service providers

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

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

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

January 2017

Appendices

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

Appendix 1 Treasury management scheme of delegation

Full Council

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

Cabinet

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

Audit Committee

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

Finance, Innovation and Property Advisory Board

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

The S151 (responsible) officer

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

Appendix 2 Prudential and Treasury Indicators

The prudential indicators relating to capital expenditure cannot be set until the capital programme is finally determined and will as a consequence be reported as part of the Setting the Budget for 2017/18 report that is to be submitted to Cabinet on 9 February 2017.

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

TREASURY MANAGEMENT INDICATORS	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt :					
borrowing	Nil	5,000	5,000	5,000	5,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	5,000	5,000	5,000	5,000
Operational Boundary for external debt:-					
borrowing	Nil	2,000	2,000	2,000	2,000
other long term liabilities	Nil	Nil	Nil	Nil	Nil
TOTAL	Nil	2,000	2,000	2,000	2,000
Actual external debt	Nil	Nil	Nil	Nil	Nil
Upper limit for fixed interest rate exposure > 1 year at year end	Nil	It is anticipated that exposure will range between 0% to 60%			
Upper limit for variable rate exposure < 1 year at year end	13,468 (55.6%)	It is anticipated that exposure will range between 40% to 100%			
Upper limit for total principal sums invested for over 364 days at year end	Nil (0%)	60% of core funds			

Maturity structure of fixed rate borrowing during 2016/17 - 2019/20	upper limit	lower limit
under 12 months	100 %	0 %
Over 12 months	0 %	0 %

Appendix 3 Interest Rate Forecasts - January 2017

Capita Asset Services Interest Rate View	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.80%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%	2.50%	2.70%	2.80%	2.90%	3.00%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
Capital Economics	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	3.10%	3.20%	3.30%	3.40%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%
Capital Economics	2.95%	3.05%	3.05%	3.15%	3.25%	3.25%	3.35%	3.45%	3.55%	3.65%	3.75%	3.95%	4.05%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
Capital Economics	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.60%	3.70%	3.80%	3.90%

Appendix 4 Economic Background Provided by Capita Asset Services

UK. **GDP** growth rates in 2013, 2014 and 2015 of 2.2%, 2.9% and 1.8% were some of the strongest rates among the G7 countries. Growth is expected to have strengthened in 2016 with the first three quarters coming in respectively at +0.4%, +0.7% and +0.5%. The latest Bank of England forecast for growth in 2016 as a whole is +2.2%. The figure for quarter 3 was a pleasant surprise which confounded the downbeat forecast by the Bank of England in August of only +0.1%, (subsequently revised up in September, but only to +0.2%). During most of 2015 and the first half of 2016, the economy had faced headwinds for exporters from the appreciation of sterling against the Euro, and weak growth in the EU, China and emerging markets, and from the dampening effect of the Government's continuing austerity programme.

The **referendum** vote for Brexit in June 2016 delivered an immediate fall in confidence indicators and business surveys at the beginning of August, which were interpreted by the Bank of England in its August Inflation Report as pointing to an impending sharp slowdown in the economy. However, the following monthly surveys in September showed an equally sharp recovery in confidence and business surveys so that it is generally expected that the economy will post reasonably strong growth numbers through the second half of 2016 and also in 2017, albeit at a slower pace than in the first half of 2016.

The **Monetary Policy Committee**, (MPC), meeting of 4th **August** was therefore dominated by countering this expected sharp slowdown and resulted in a package of measures that included a cut in Bank Rate from 0.50% to 0.25%, a renewal of quantitative easing, with £70bn made available for purchases of gilts and corporate bonds, and a £100bn tranche of cheap borrowing being made available for banks to use to lend to businesses and individuals.

The **MPC** meeting of 3 **November** left Bank Rate unchanged at 0.25% and other monetary policy measures also remained unchanged. This was in line with market expectations, but a major change from the previous quarterly Inflation Report MPC meeting of 4 August, which had given a strong steer, in its forward guidance, that it was likely to cut Bank Rate again, probably by the end of the year if economic data turned out as forecast by the Bank. The MPC meeting of 15 December also left Bank Rate and other measures unchanged.

The latest MPC decision included a forward view that **Bank Rate** could go either up or down depending on how economic data evolves in the coming months. Our central view remains that Bank Rate will remain unchanged at 0.25% until the first increase to 0.50% in quarter 2 2019 (unchanged from our previous forecast). However, we would not, as yet, discount the risk of a cut in Bank Rate if economic growth were to take a significant dip downwards, though we think this is unlikely. We would also point out that forecasting as far ahead as mid 2019 is highly fraught as there are many potential economic headwinds which could blow the UK economy one way or the other as well as political developments in the UK, (especially over the terms of Brexit), EU, US and beyond, which could have a major impact on our forecasts.

The pace of Bank Rate increases in our forecasts has been slightly increased beyond the three year time horizon to reflect higher inflation expectations.

The August quarterly **Inflation Report** was based on a pessimistic forecast of near to zero GDP growth in quarter 3 i.e. a sharp slowdown in growth from +0.7% in quarter 2, in reaction to the June referendum result. However, consumers have very much stayed in a 'business as usual' mode and there has been no sharp downturn in spending; it is consumer expenditure that underpins the services sector which comprises about 75% of UK GDP. After a fairly flat three months leading up to October, retail sales in October surged at the strongest rate since September 2015 and were again strong in November. In addition, the GfK consumer confidence index recovered quite strongly to -3 in October after an initial sharp plunge in July to -12 in reaction to the referendum result. However, in November it fell to -8 indicating a return to pessimism about future prospects among consumers, probably based mainly around concerns about rising inflation eroding purchasing power.

Bank of England **GDP forecasts** in the November quarterly Inflation Report were as follows, (August forecasts in brackets): 2016 +2.2%, (+2.0%); 2017 1.4%, (+0.8%); 2018 +1.5%, (+1.8%). There has, therefore, been a sharp increase in the forecast for 2017, a marginal increase in 2016 and a small decline in growth, now being delayed until 2018, as a result of the impact of Brexit.

Capital Economics' GDP forecasts are as follows: 2016 +2.0%; 2017 +1.5%; 2018 +2.5%. They feel that pessimism is still being overdone by the Bank and Brexit will not have as big an effect as initially feared by some commentators.

The **Chancellor** has said he will do 'whatever is needed' i.e. to promote growth; there are two main options he can follow – fiscal policy e.g. cut taxes, increase investment allowances for businesses, and/or increase government expenditure on infrastructure, housing etc. This will mean that the PSBR deficit elimination timetable will need to slip further into the future as promoting growth, and ultimately boosting tax revenues in the longer term, will be a more urgent priority. The Governor of the Bank of England had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the

UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting to boost economic growth and suggested that the Government would need to help growth e.g. by increasing investment expenditure and by using fiscal policy tools. The newly appointed Chancellor, Phillip Hammond, announced, in the aftermath of the referendum result and the formation of a new Conservative cabinet, that the target of achieving a budget surplus in 2020 would be eased in the Autumn Statement on 23 November. This was duly confirmed in the Statement which also included some increases in infrastructure spending.

The other key factor in forecasts for Bank Rate is **inflation** where the MPC aims for a target for CPI of 2.0%. The November Inflation Report included an increase in the peak forecast for inflation from 2.3% to 2.7% during 2017. Capital Economics are forecasting a peak of just under 3% in 2018. This increase was largely due to the effect of the sharp fall in the value of sterling since the referendum, although during November, sterling has recovered some of this fall to end up 15% down against the dollar, and 8% down against the euro (as at the date of the December 2016 MPC meeting). This depreciation will feed through into a sharp increase in the cost of imports and materials used in production in the UK. However, the MPC is expected to look through the acceleration in inflation caused by external influences, although it has given a clear warning that if wage inflation were to rise significantly as a result of these cost pressures on consumers, then they would take action to raise Bank Rate.

What is clear is that **consumer disposable income** will come under pressure, as the latest employers' survey is forecasting median pay rises for the year ahead of only 1.1% at a time when inflation will be rising significantly higher than this. The CPI figure has been on an upward trend in 2016 and reached 1.2% in November. However, prices paid by factories for inputs rose to 13.2% though producer output prices were still lagging behind at 2.3% and core inflation was 1.4%, confirming the likely future upward path.

Gilt yields, and consequently PWLB rates, have risen sharply since hitting a low point in mid-August. There has also been huge volatility during 2016 as a whole. The year started with 10 year gilt yields at 1.88%, fell to a low point of 0.53% on 12 August, and hit a new peak on the way up again of 1.55% on 15 November. The rebound since August reflects the initial combination of the yield-depressing effect of the MPC's new round of quantitative easing on 4 August, together with expectations of a sharp downturn in expectations for growth and inflation as per the pessimistic Bank of England Inflation Report forecast, followed by a sharp rise in growth expectations since August when subsequent business surveys, and GDP growth in quarter 3 at +0.5% q/q, confounded the pessimism. Inflation expectations also rose sharply as a result of the continuing fall in the value of sterling.

Employment had been growing steadily during 2016 but encountered a first fall in over a year, of 6,000, over the three months to October. The latest employment data in December, (for November), was distinctly weak with an increase in unemployment benefits claimants of 2,400 in November and of 13,300 in October. House prices have been rising during 2016 at a modest pace but the pace of increase has slowed since the referendum; a downturn in prices could dampen consumer confidence and expenditure.

USA. The American economy had a patchy 2015 with sharp swings in the quarterly growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 at +0.8%, (on an annualised basis), and quarter 2 at 1.4% left average growth for the first half at a weak 1.1%. However, quarter 3 at 3.2% signalled a rebound to strong growth. The Federal Reserve embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene, and then the Brexit vote, have caused a delay in the timing of the second increase of 0.25% which came, as expected, in December 2016 to a range of 0.50% to 0.75%. Overall, despite some data setbacks, the US is still, probably, the best positioned of the major world economies to make solid progress towards a combination of strong growth, full employment and rising inflation: this is going to require the central bank to take action to raise rates so as to make progress towards normalisation of monetary policy, albeit at lower central rates than prevailed before the 2008 crisis. The Federal Reserve also indicated that it expected three further increases of 0.25% in 2017 to deal with rising inflationary pressures.

The result of the presidential election in November is expected to lead to a strengthening of US growth if pre-election promises of a major increase in expenditure on infrastructure are implemented. This policy is also likely to strengthen inflation pressures as the economy is already working at near full capacity. In addition, the unemployment rate is at a low point verging on what is normally classified as being full employment. However, the US does have a substantial amount of hidden unemployment in terms of an unusually large, (for a developed economy), percentage of the working population not actively seeking employment.

In the first week since the US election, there was a shift in investor sentiment away from bonds to equities, especially in the US. However, gilt yields in the UK and bond yields in the EU have also been dragged higher. Some commentators are saying that this rise has been an overreaction to the US election result which could be reversed. Other commentators take the view that this could well be the start of the long expected eventual unwinding of bond prices propelled upwards to unrealistically high levels, (and conversely bond yields pushed down), by the artificial and temporary power of quantitative easing.

Eurozone (EZ). In the Eurozone, the ECB commenced, in March 2015, a €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month. This was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March 2016 meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise significantly from low levels towards the target of 2%. Consequently, at its December meeting it extended its asset purchases programme by continuing purchases at the current monthly pace of €80 billion until the end of March 2017, but then continuing at a pace of €60 billion until the end of December 2017, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. It also stated that if, in the meantime, the outlook were to become less favourable or if financial conditions became inconsistent with further progress towards a sustained adjustment of the path of inflation, the Governing Council intended to increase the programme in terms of size and/or duration.

EZ GDP growth in the first three quarters of 2016 has been 0.5%, +0.3% and +0.3%, (+1.7% y/y). Forward indications are that economic growth in the EU is likely to continue at moderate levels.

Asia. Economic growth in China has been slowing down and this, in turn, has impacted economic growth in emerging market countries dependent on exporting raw materials to China. Medium term risks have been increasing in China e.g. a build-up in the level of credit compared to the size of GDP, plus there is a need to address over supply of housing and surplus industrial capacity, which both need to be eliminated. This needs to be combined with a rebalancing of the economy from investment expenditure to consumer spending. However, the central bank has a track record of supporting growth through various monetary policy measures, though these further stimulate the growth of credit risks and so increase the existing major imbalances within the economy.

Economic growth in Japan has proven difficult to sustain despite successive rounds of monetary stimulus and fiscal action to promote consumer spending.

The government is also making limited progress on fundamental economic reform.

Emerging countries. There have been concerns around the vulnerability of some emerging countries exposed to the downturn in demand for commodities from China or to competition from the increase in supply of American shale oil and gas reaching world markets. The ending of sanctions on Iran has also brought a further increase in oil supplies into the world markets. While these concerns have subsided during 2016, if interest rates in the USA do rise substantially over the next few years, (and this could also be accompanied by a rise in the value of the dollar in exchange markets), this could impact on emerging countries with large amounts of debt denominated in dollars. The Bank of International Settlements has recently released a report that $340bn of emerging market corporate debt will fall due for repayment in the final two months of 2016 and in 2017 – a 40% increase on the figure for the last three years.

Financial markets could also be vulnerable to risks from those emerging countries with major sovereign wealth funds, that are highly exposed to the falls in commodity prices from the levels prevailing before 2015, especially oil, and which, therefore, may have to liquidate substantial amounts of investments in order to cover national budget deficits over the next few years if the price of oil does not return to pre-2015 levels.

Brexit timetable and process:

- March 2017: UK Government notifies the European Council of its intention to leave under the Treaty on European Union Article 50.
- March 2019: two-year negotiation period on the terms of exit. This period can be extended with the agreement of all members i.e. not that likely.
- UK continues as an EU member during this two-year period with access to the single market and tariff free trade between the EU and UK.
- The UK and EU would attempt to negotiate, among other agreements, a bi-lateral trade agreement over that period.
- The UK would aim for a negotiated agreed withdrawal from the EU, although the UK may also exit without any such agreements.
- If the UK exits without an agreed deal with the EU, World Trade Organisation rules and tariffs could apply to trade between the UK and EU but this is not certain.
- On exit from the EU: the UK parliament would repeal the 1972 European Communities Act. The UK will then no longer participate in matters reserved for EU members, such as changes to the EU's budget, voting allocations and policies.
- It is possible that some sort of agreement could be reached for a transitional time period for actually implementing Brexit after March 2019 so as to help exporters to adjust in both the EU and in the UK.

Appendix 5 Specified and Non-specified Investments

All specified and non-specified Investments will be:

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

Subject to the duration limit suggested by Capita **(+6 months for UK Financial Institutions)** at the time each investment is placed.

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

Sterling denominated.

Specified Investments (maturities up to 1 year):

investment	Minimum Credit Criteria
UK Debt Management Agency Deposit Facility	UK Sovereign AA-
Term deposits - UK local authorities	UK Sovereign AA-
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 or Green excluding CDS
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1,or Green excluding CDS
UK Treasury Bills	UK Sovereign AA-
UK Government Gilts	UK Sovereign AA-
Bonds issued by multi-lateral development banks	AAA
Sovereign bond issues (other than the UK govt)	AAA
Money Market Funds	At least one of : AAAmf, AAAmmf or AAAm
Enhanced Cash and Government Liquidity Funds	AAA

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

Investment	Minimum Credit Criteria	Max duration to maturity
Fixed term deposits with variable rate and variable maturities (structured deposits) - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Fixed term deposits with variable rate and variable maturities (structured deposits) - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Term deposits - local authorities	UK Sovereign AA-	2 years
Term deposits - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Term deposits - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1(Green)	2 years
Certificates of deposit - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Certificates of deposit - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Commercial paper - UK nationalised and part nationalised banks	UK Sovereign AA-	2 years
Commercial paper - banks and building societies	UK / Non-UK Sovereign AA-. Counterparty A-, F1 (Green)	2 years
Floating rate notes issued by multilateral development banks	AAA	5 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other than the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign AA-	25% 5 years
UK Government Gilts	UK Sovereign AA-	25% 10 years
Property Funds	**N/A**	**N/A**

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

Appendix 6 Approved countries for investments

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

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

As of 31 December 2016 sovereigns meeting the above requirement which also have banks operating in sterling markets with credit ratings of green or above on the Capita Asset Services' Credit Worthiness List were:

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

Annex 5

Response to the Financial Conduct Authority's consultation on the implementation of the EU Directive: Markets in Financial Instruments Directive (MiFid II)

Q16: Do you agree with our approach to revise the quantitative thresholds as part of the opt-up criteria for local authorities by introducing a mandatory portfolio size requirement of £15m? If not, what do you believe is the appropriate minimum portfolio size requirement, and why?

The Council's investment portfolio includes a mix of deposit accounts, notice accounts and term deposits with banks and building societies. These are arranged with an institution directly or via brokers. Diversification is enhanced through access to certificates of deposit, treasury bills, gilts, money market funds and enhanced cash funds.

As a *billing authority*, the Council's investment balances vary during the financial year and are at their lowest at financial year end. Whilst the Council's investment balances are currently substantially above the £15m quantitative threshold that situation is expected to change over time as the Council uses its reserves to manage reduced financial support from Government.

We feel the proposal will preclude a significant number of district and higher tier authorities from consideration as 'professional clients' and through it, impact on the security, diversity and yield of their investment portfolios. Either a lower portfolio requirement should be adopted (£10m) or our preferred solution: that local authorities be subject to the 'large undertakings' test applied to private sector organisations (€40m annual income, €20m of assets and €2m in reserves) and the proposed qualitative tests dispensed with.

Q17: Do you agree with our approach to extend these proposals to non-MiFID scope business? If not, please give reasons why.

Agree.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Chief Executive and Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 RISK MANAGEMENT STRATEGY

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

1.1 Introduction

1.1.1 The Council has had a Risk Management Strategy in place for a number of years. The Council's Risk Management arrangements are designed to ensure a prudent approach is taken, with risks reduced to an acceptable level, thereby safeguarding the Council's assets, employees and customers. Examples of risk include budget deficit, cyber/data loss, environmental and reputational.

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

1.2 Review of the Risk Management Strategy

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

1.2.2 The Risk Management Strategy has been fully reviewed and updated, together with the Risk Management Guidance. The Corporate Risk Register is being updated through the new process to align with the recently approved new Corporate Strategy. The main changes proposed to the risk management process relate to identified risks being subject to 'escalation' whereby risks falling into the 'red' zone will be considered by the relevant Service Management Team; none, some or all of which will then be judged to be of sufficient significance to be reported to Management Team and subsequently Members. Training for Audit Committee Members will be provided periodically with the first session preceding this meeting. Briefing sessions will be provided to Service Management teams to implement the revised process with subsequent briefings provided ad hoc as required. A copy of the Risk Management Strategy is attached at **[Annex 1].** For information a copy of the Risk Management Guidance has also been attached at **[Annex 2]**.

1.3 Legal Implications

1.3.1 There is a Health and Safety requirement for effective risk management to be in place and the strategy supports this requirement.

1.3.2 There is also a requirement in the Accounts and Audit Regulations that accounting control systems must include measures to ensure that risk is appropriately managed.

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

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

1.6 Equality Impact Assessment

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

1.7 Recommendations

1.7.1 Members are asked to **consider** and **endorse** the proposed change to the risk management process detailed at paragraph 1.2.2.

1.7.2 Members are also asked to **review** the Risk Management Strategy and subject to any amendment required to **recommend** to Cabinet for adoption by Council.

Background papers: contact: Samantha Buckland

Nil

Julie Beilby
Chief Executive

Sharon Shelton
Director of Finance and Transformation

TONBRIDGE AND MALLING BOROUGH COUNCIL

RISK MANAGEMENT STRATEGY

1. Introduction

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

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

2. Mandate and commitment

2.1. This strategy is supported and endorsed by the Management Team and Members of the Audit Committee who will ensure that:

- The risk management objectives are aligned with the objectives and strategies of the Council
- The Council's culture and risk management strategy are aligned
- The necessary resources are allocated to risk management
- There is a commitment to embedding risk management throughout the organisation, making it a part of everyday service delivery and decision making
- The framework for managing risk continues to remain appropriate

3. Applicability

3.1. This strategy applies to the whole of the Council's core functions. Where the Council enters into partnerships the principles of risk management established by this strategy and supporting guidance should be considered as best practice and applied where possible. We would also expect that our significant contractors have risk management arrangements at a similar level, and this should be established and monitored through procurement processes and contract management arrangements.

4. Objectives

4.1. The risk management objectives of the Council are to:

- Embed risk management into the culture of the Council
- Apply best practice to manage risk using a balanced, practical and effective approach
- Manage risks in line with its risk appetite, and thereby enable it to achieve its objectives more effectively

- Integrate the identification and management of risk into policy and operational decisions, anticipating and responding proactively to social, environmental and legislative changes and directives that may impact on delivery of our objectives
- Eliminate or reduce the impact, disruption and loss from current and emerging events
- Harness risk management to identify opportunities that current and emerging events may present and maximise benefits and outcomes
- Ensure effective intelligence sharing and collaboration between risk management disciplines across all Council activities
- Ensure fraud risks are proactively considered and embedded into the organisation's risk management arrangements
- Benefit from consolidating ongoing learning and experience through the collation and sharing of risk knowledge; demonstrate a consistent approach to the management of risks when embarking on significant change activity
- Ensure sound and transparent risk management arrangements are operated in partnership and commissioner / provider situations, underpinned by a culture that supports collaboration and the development of trust, ensuring clear effective lines of communication and the management of relationships.

4.2. The Council shall delegate responsibility to an appropriate officer who shall maintain a programme that sets out the delivery of this strategy, with delivery being assured by the Management Team.

5. Roles and responsibilities

5.1. Responsibility for risk management runs throughout the Council; everyone has a role to play. Managers and staff that are accountable for achieving an objective are accountable for managing the risks to achieving it. To ensure that risk management is successful, the roles and responsibilities of key groups and individuals must be clearly identified, see table at 5.3 below.

5.2. Other officer groups' deal with related risk specialisms such as Health and Safety; Treasury Management; Emergency Resilience and Business Continuity; Insurance; Information Security; Anti-fraud and corruption etc. These groups are linked into the governance arrangements of the Council so that their work is co-ordinated within the Council's overall risk management framework.

5.3. In order to support Members and Officers with their responsibilities, risk management guidance is available.

Group or Individual	Responsibilities
Full Council	Council approval of the Risk Management Strategy will be witnessed by the signature of the Leader of the Council.
Audit Committee	The Chairman of the Audit Committee will take a lead role in promoting the application of sound risk management practices across the Council. Training will be provided periodically for all Audit Committee

	members. The Audit Committee will consider the Risk Management process as part of the assurance evidence in support of any Corporate Governance Statement. The Audit Committee will provide independent assurance of the adequacy of the risk management framework and will monitor the effective development and operation of risk management in the Council.
Committees	Responsibility for considering risk when making decisions on behalf of the Council. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Advisory Boards	Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required.
Chief Executive	Responsibility for the overall monitoring of strategic risks across the Council, including the endorsement of priorities and management action. Responsible for ensuring that risk management resources are appropriate. Also responsible for counter-signing the Risk Strategy.
Section 151 Officer	Active involvement in all material business decisions to ensure immediate and longer term financial implications, opportunities and risks are fully considered.
Management Team (MT)	To ensure the Council manages risks effectively and actively consider, own and manage key strategic risks affecting the Council through the Corporate Risk Register. Keep the Council's risk management framework under regular review and approve and monitor delivery of the annual risk work programme. Promote and demonstrate the behaviours and values that support well-informed and considered risk taking, while maintaining accountability. Encourage open and frank conversations about risks, ensuring appropriate reporting and escalation as required. Delegate the development and delivery of appropriate training to support the implementation of this policy for Members and Officers.
Service Management Teams (SMT)	Responsibility for the effective management of risk within the directorate, including risk escalation and reporting to the Management Team as appropriate. Briefing sessions will be provided on an as and when basis to senior management.
Internal Audit	Assesses the effectiveness of the risk management framework and the control environment in mitigating risk. Review and challenge risk management arrangements through its

	audit and fraud prevention activities.
All elected Members and staff members	Identify risks and contribute to their management as appropriate. Report inefficient, unnecessary or unworkable controls. Report loss events or near-miss incidents to management.

6. Review of this strategy

6.1. It is the responsibility of the Audit Committee to: 'On behalf of the Council ensure that Risk Management and Internal Control systems are in place that are adequate for purpose, and are effectively and efficiently operated.' Internal Audit will support their role in assuring its effectiveness and adequacy.

6.2. Information from Internal Audit and from other sources will be used to inform recommended changes to the strategy and framework at least annually. Any changes will be presented to the Audit Committee for approval before publication.

7. Approval

Signed: ________________________ Print Name: ________________________

Date: ________________________ Position: Leader of the Council

Signed: ________________________ Print Name: ________________________

Date: ________________________ Position: Chief Executive

TONBRIDGE AND MALLING BOROUGH COUNCIL

RISK MANAGEMENT GUIDANCE

CONTENTS **PAGE NUMBER**

1. Introduction

1.1. Tonbridge and Malling Borough Council (the Council) has an approved Risk Management Strategy (the Strategy) and this guidance should be read in conjunction with this Strategy. The aim of the this guidance is two-fold; to specify how the Council will deliver its objectives as outlined in the Strategy, and provide guidance on how to effectively manage risk.

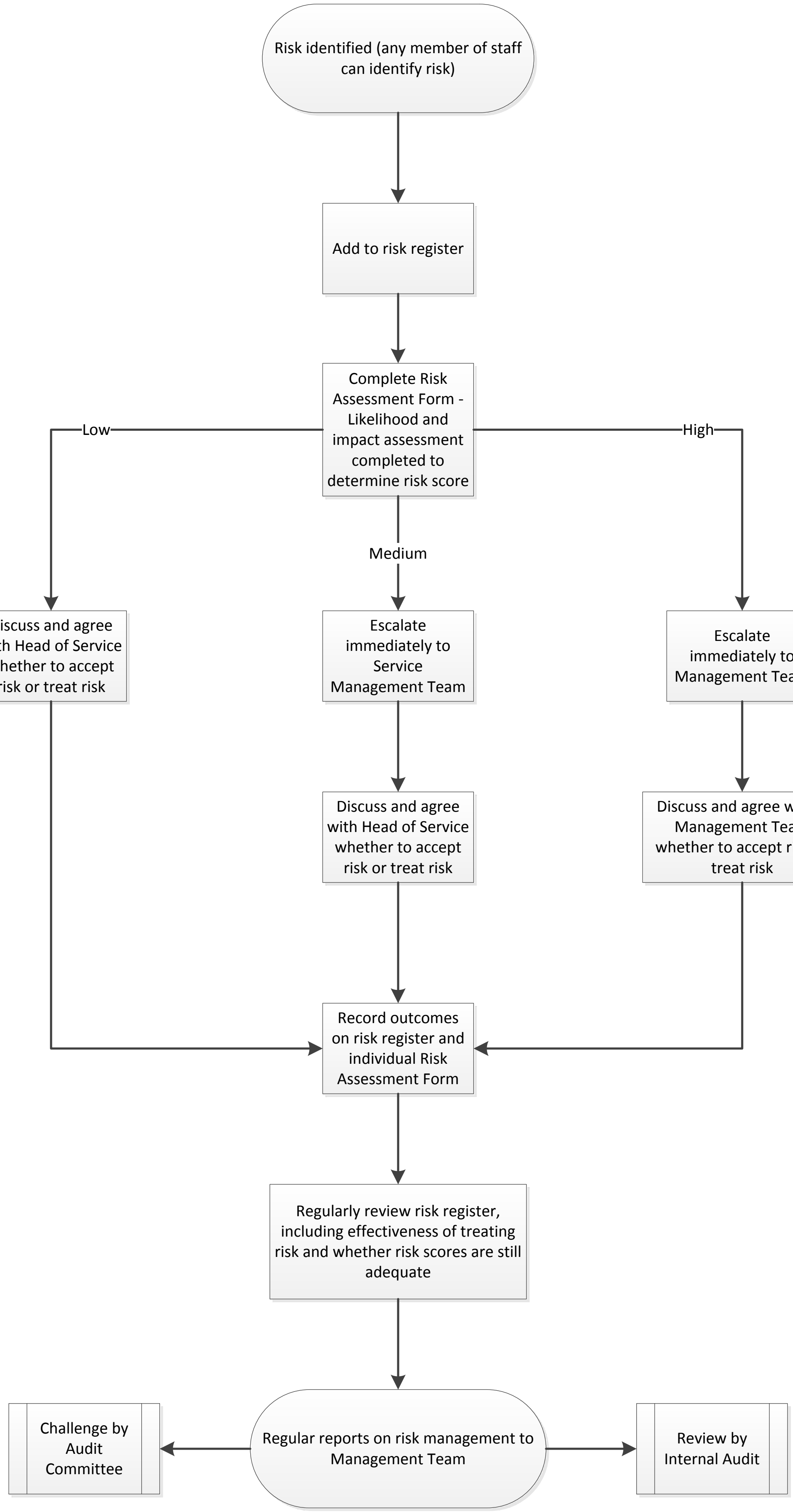
2. Achieving strategy objectives

2.1. The Council shall achieve its objectives, as outlined in the Strategy, through:

- Integrating effective risk management practices into the Council's management, decision making and planning activities.
- Maintaining common links between business planning, performance and risk management.
- Maintaining the frequency and effectiveness of monitoring of key risks.
- Providing a mix of risk management training, awareness sessions and support for both Officers and Members of the Council.
- Ensuring links between audit planning and risk management processes to enable assurance on the effectiveness of risk management across the Council.
- Subjecting the Council's risk framework and practice to annual review to determine the effectiveness of arrangements and level of risk maturity.
- Ensuring risk management arrangements are embedded within transformation activity.
- Providing continuous challenge and quality assurance to all elements of the risk management process.
- Focusing on robust monitoring of mitigating actions to ensure that risks, once identified and assessed, are appropriately managed.
- Working collaboratively with partners and providers (both internal and external) to develop effective risk ownership and risk sharing arrangements; striking a proportionate balance of oversight of risks of providers / partners without being over-constrictive.
- Providing guidance on identifying, assessing, managing and reporting on risk, including escalation of risks.

3. Risk management at a glance

3.1. The following process flow visually demonstrates the risk management process.



Risk identified (any member of staff can identify risk)
Add to risk register
Complete Risk Assessment Form - Likelihood and impact assessment completed to determine risk score
Low
Medium
High
Discuss and agree with Head of Service whether to accept risk or treat risk
Escalate immediately to Service Management Team
Escalate immediately to Management Team
Discuss and agree with Head of Service whether to accept risk or treat risk
Discuss and agree within Management Team whether to accept risk or treat risk
Record outcomes on risk register and individual Risk Assessment Form
Regularly review risk register, including effectiveness of treating risk and whether risk scores are still adequate
Challenge by Audit Committee
Regular reports on risk management to Management Team
Review by Internal Audit

4. Identifying risks

4.1. Risk is something that might happen, which if it materialises will affect us in some way or other. A risk is a combination of 'likelihood' and 'impact', that is; how likely the risk is to happen and if it did how much would it affect us. As soon as a risk is identified it should be recorded on the Risk Register, see Appendix A. This Register should be continually updated to demonstrate assessment, evaluation, treatment and ongoing review.

4.2. Before we can evaluate the level of risk associated with an activity we have to determine what is most likely to trigger the risk or initiate its occurrence and assess what the consequences may be if it did occur i.e. identify the risk event.

4.3. Risk assessment looks to determine the key triggers and causes and the likely consequences and impact. Once these are established we can use the assessment to gauge the likelihood of occurrence and impact of the consequences to determine the severity or level of risk.

5. Assessing risks

5.1. Identified risks need to be assessed so that they may be evaluated to determine their severity and to present an overall picture of the extent of the combined risks on the achievement of the objectives. The Council recognises 3 levels of risk:

LOW	MEDIUM	HIGH
1 – 4	**5 – 12**	**15 – 24**

5.2. The scoring of risks will be carried out using a Likelihood & Impact matrix, see table below with accompanying definitions.

Likelihood ☝	Almost inevitable	**6**	6 Medium	12 Medium	18 High	24 High
	Very likely	**5**	5 Medium	10 medium	15 High	20 High
	Likely	**4**	4 Low	8 Medium	12 Medium	16 High
	Unlikely	**3**	3 Low	6 Medium	9 Medium	12 Medium
	Very Unlikely	**2**	2 Low	4 Low	6 Medium	8 Medium
	Almost impossible	**1**	1 Low	2 Low	3 Low	4 Low
			1	2	3	4
Impact ☞			Negligible	Marginal	Significant	Critical

5.3. Each risk identified and recorded may be broken down into its component parts using a Risk Assessment Form – see Appendix B.

5.4. The source/cause, risk event and consequences should be listed, together with any controls or actions and their owners. Such controls and actions are used to mitigate the risk level and should be described in a clear and specific manner to enable stakeholders to gain sufficient understanding of them.

5.5. Risk assessments should be used to assess the level of risk associated with the objective and inform the process for refreshing risk registers. In some cases, where the details of risks are clear, key risk information can be entered straight onto risk registers.

5.6. Key project and partnership risks should be included within this process as they will have their sources of origin in business objectives.

6. Evaluating risks

6.1. From the information collated and recorded when assessing the risk it should be possible to estimate and distinguish how likely the risk is to happen – Almost inevitable, very likely, likely, very unlikely, almost impossible. Similarly, from the information collated and recorded it should be possible to distinguish the level of impact the risk would have if the risk occurred now – Negligible, Marginal, Significant or Critical.

For example:

- A risk with an "unlikely" likelihood (3) and "almost inevitable" impact (4) would equate to a "Medium" risk level with a score of 12 (3 x 4).
- A risk that is judged to be "likely" (4) and have a "negligible" impact (1) would equate to a "Low" risk level with a score of 4 (4 x 1).

6.2. When determining the risk rating, bear in mind that it is not an exact science. Without significant historical data or mathematical prediction it is, for the most part, a subjective but important estimate. Appendix C provides a couple of guides to help you to estimate likelihood; one in the form of a cross reference table and the second a decision chart.

6.3. For reference, the initial result of an evaluation is known as the 'inherent risk', which refers to the exposure arising from a specific risk *before* any action has been taken to manage it. Due to the fact that determining the inherent risk can seem a rather theoretical exercise, there is not a requirement to include this as part of the risk assessment process. The focus is instead on assessing the current level of risk, taking controls in place into account, and setting a realistic target level of risk that you would wish to manage the risk down to.

7. Escalating risks

7.1. It is not uncommon for risks to have knock-on effects for other activities across a risk perspective or in another risk perspective, for example a risk in one operational (perspective) area may be a source of risk to another; similarly a high level risk in a project perspective may need to be highlighted and considered at a strategic perspective.

7.2. It is essential that we understand risks and their potential to have knock-on effects. It is equally important that we set out clear rules for escalation of risks.

7.3. Any risk evaluated as 'High Risk' (score of 15 or above) will be deemed by the Council to be beyond 'risk tolerance' and to have exceeded its 'risk appetite' and will be escalated immediately. Such risks should be added to the service's risk register and discussed at the earliest opportunity within the Service Management Team before being reported to Management by the respective Service Director.

7.4. Similarly risks identified as "Medium Risk" should be escalated to the appropriate Service Management for advice and to ensure they are kept fully aware of the current risks being faced.

7.5. Risks determined as "Low Risk" should be managed within the service team.

7.6. Where high risks are identified in Project and Programme Risk Registers the Project / Programme Manager must check its impact on the relevant division or directorate risk registers.

7.7. The target residual rating for a risk is expected to be 'medium' or lower. In the event that this is not deemed realistic in the short to medium term, this shall be discussed as part of the escalation process, and this position regularly reviewed with the ultimate aim of bringing the level of risk to a tolerable level.

7.8. There may be rare occasions where a risk is deemed to be well within risk appetite and therefore could be seen as over-controlled. In this instance a target level of risk could be set that is higher than the current level, as long as it remains within risk appetite.

8. Proximity of risk

8.1. Some risks identified may pose an immediate risk whereas others may not be a risk for several months or even years. Establishing risk 'proximity' adds an additional dimension especially when planning and prioritising resources to deal with risk actions.

8.2. Proximity may be categorised as follows:

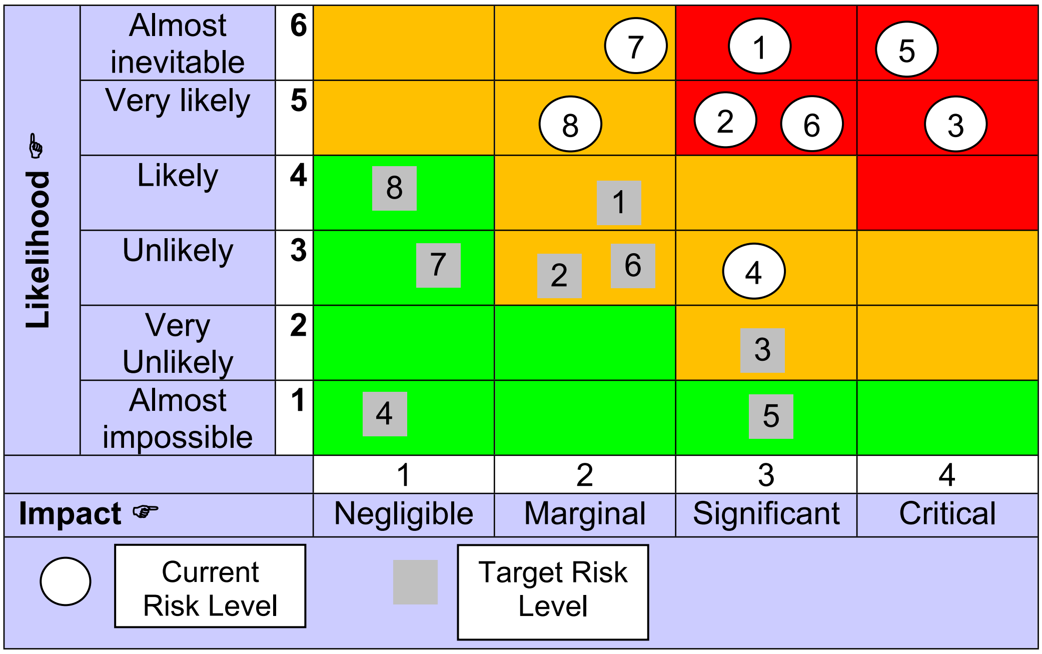
- Immediate – Risk likely to occur / most severe within the next 6 months
- Medium Term - Risk likely to occur / most severe between 6 to 12 months
- Long Term - Risk likely to occur / most severe 12 months plus

9. Summary risk profile

9.1. A summary risk profile is a simple mechanism to increase the visibility of risks. It is a graphical representation of information normally found on an existing risk register.

9.2. It provides a powerful visual snapshot of the collective risk associated with the activity. The summary risk profile makes use of the chart in figure 1 above to plot each of the risks identified. The example below gives an example of a completed Summary Risk Profile.

9.3. Example - Completed Summary Risk Profile



9.4. In the example, the risk numbers (in white circles) are plotted to show their current risk levels for a series of 8 risks. It suggests that the activity is fairly high risk overall.

9.5. Again, in the example, the risk numbers (in grey squares) are plotted to show the target risk levels for the series of 8 risks. These show the effect that the risk controls and actions should have on the risks if they were successfully applied and completed.

9.6. Overall it demonstrates how an activity that carries a degree of high risk and potential failure could be made more acceptable. On a cautionary note, the effort and resources to be expended on managing the risk need to be re-factored into plans to ensure the activity in question remains a viable one.

10. Allocating risks and determining actions

10.1. All risks, no matter how they are assessed, should be allocated an owner. The owner shall be responsible for managing the risk to ensure it is appropriately treated. The level of risk will determine who the owner should be:

- High Risk – Management Team
- Medium Risk – Service Management Team
- Low Risk – Head of Service

10.2. Once a risk has been identified, assessed and evaluated, it's important that actions are determined to treat the risk. The extent of any actions will be driven by a number of factors including the overall risk score, risk appetite and desired risk score. All actions should be documented on the Risk Assessment Form.

11. Monitoring Risks

11.1. Risks should be continuously monitored, as unmanaged risks can prevent the Council from achieving its objectives. The extent of monitoring will be driven by the risk rating. For example a risk assessed as High would require more frequent monitoring than a risk assessed as Low.

11.2. As a minimum it is good practice to monitor risks formally on a quarterly basis and record sufficient evidence of this.

Appendix A - Risk Register

Area ____________

No	Risk Title	Consequences	Date identified	Likelihood Score	Impact score	Overall inherent risk score	Risk Assessment form completed?	Desired risk score	Mitigating actions to achieve desired risk score	Links to Corporate Objectives / Directorate Business Plans	Risk Owner	Review Date

Appendix B - Risk Assessment Form

SECTION 1 – RISK		
Risk Owner:	**Service:**	**Directorate**:
Risk Event:	**Source/ cause:**	**Consequences**:
(risk matrix below)		**Likelihood score**: **Impact score**: **Overall risk score**: **Accepted?*** * If yes, provide rationale. * If no, go to Section 2.

Likelihood F						
	Almost inevitable	**6**	6 Medium	12 Medium	18 High	24 High
	Very likely	**5**	5 Medium	10 medium	15 High	20 High
	Likely	**4**	4 Low	8 Medium	12 Medium	16 High
	Unlikely	**3**	3 Low	6 Medium	9 Medium	12 Medium
	Very Unlikely	**2**	2 Low	4 Low	6 Medium	8 Medium
	Almost impossible	**1**	1 Low	2 Low	3 Low	4 Low
			1	2	3	4
Impact			Negligible	Marginal	Significant	Critical

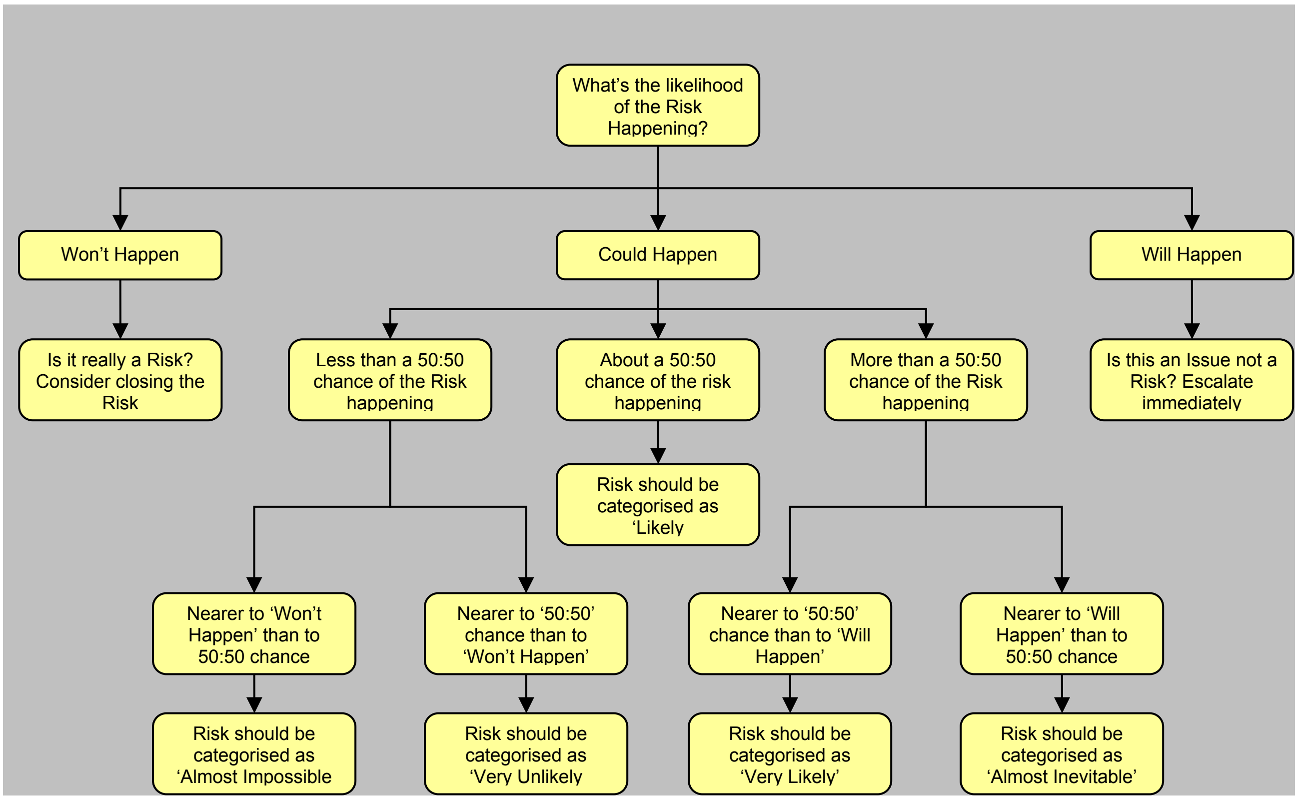
SECTION 2 – CONTROLS/ MITIGATING ACTIONS (copy this section for each control/ action)		
Control/ Action Owner:	**Service:**	**Directorate**:
Control/ Action:	**Dependencies**:	**Key Dates**: • Implementation: • Review date: • Reporting intervals:

Appendix C - Determining Likelihood

Likelihood Cross Reference Table

	Likelihood	Indicators
Almost Inevitable	• Almost certainly will occur	• Regular occurrence • Circumstances frequently encountered i.e. daily/weekly/monthly • The risk is current & is almost certain to happen within the next twelve months
Very Likely	• More likely to occur than not	• Likely to happen at some point within the next 1-2 years • Circumstances occasionally encountered (once or twice a year)
Likely	• Fairly likely to occur	• Has happened in past • Reasonable possibility it will happen within next 3 years
Very Unlikely	• Unlikely to occur	• May have happened in the past • Unlikely to happen in 3+ years
Almost Impossible	• Extremely unlikely or virtually impossible	• Has happened rarely or never before

Likelihood Decision Chart



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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

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

1.1 Introduction

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

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

1.2 Anti-Fraud Policies

1.2.1 The Anti-Fraud Policies were last reviewed by the Committee in January 2016. This latest review found that no changes were required to the policies.

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

1.3 Whistleblowing Policy

1.3.1 The Whistleblowing Policy was last reviewed by the Committee in April 2016. This latest review found that no changes were required to the policy.

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

1.4 Action Following Approval of Policies

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

1.5 Legal Implications

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

1.6 Financial and Value for Money Considerations

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

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

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

1.7 Risk Assessment

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

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

1.8 Equality Impact Assessment

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

1.9 Recommendations

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

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

Background papers: contact: Samantha Buckland

Nil

Sharon Shelton
Director of Finance and Transformation

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ANTI-FRAUD & CORRUPTION POLICY

TONBRIDGE & MALLING
BOROUGH COUNCIL

January 2017

Contents

Tonbridge and Malling Borough Council
Anti-Fraud & Corruption Policy

1 INTRODUCTION

1.1 Tonbridge & Malling Borough Council is opposed to all forms of fraud and corruption, including bribery, and is determined to protect itself from such actions whether attempted from within the Council or by an outside individual, group or organisation.

1.2 The Council recognises that fraud, bribery and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. Such activity may therefore impact on the ability of the Council to achieve its corporate objectives, as set out in its Corporate Plan. In response to this, the Anti-Fraud & Corruption Policy is designed to:

- encourage prevention;
- promote detection; and
- support investigation.

2 DEFINITIONS OF FRAUD, BRIBERY & CORRUPTION

2.1 Fraud is defined as:

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

2.2 This may involve:

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

2.3 Fraud can be any act of deception which acts to the financial detriment of the Council. Acts such as misappropriation or petty theft will therefore also be considered by the Council as fraud and treated under the arrangements within this Policy.

2.4 Bribery is defined as:

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

2.5 Corruption is defined as:

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

3 THE COUNCIL'S COMMITMENT

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

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

4 PREVENTION OF FRAUD, BRIBERY & CORRUPTION

Recruitment and induction

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

4.2 The Council has developed a formal induction process for new employees. This is intended to assist them in understanding the Council, its decision-making arrangements and the requirements of the Officers' Code of Conduct.

4.3 As elected representatives of the local community, newly-elected Members are also required to complete an induction to assist them in understanding the Council, its decision-making arrangements and the requirements of the Members' Code of Conduct.

Training

4.4 The Council recognises that training is a vital tool in ensuring that both officers and Members clearly understand their roles and responsibilities within the organisation and carry these out within the Council's framework of policies and procedures. Training is particularly important where employees are required to operate within financial systems or handle monies or personal/confidential information.

4.5 The Council will promote a general awareness of fraud, bribery and corruption to all employees and Members, with specific training provided to officers engaged in the prevention and detection of such activity to ensure that they have the necessary skills to carry out these functions.

Internal Control Arrangements

4.6 The Council as a whole operates within a framework of policies and procedures intended to direct the activity of the Council and ensure transparency in decision making. The Constitution forms the main spine of these arrangements and includes the Council's financial procedure rules and contracts procedure rules.

4.7 Responsible officers are expected to ensure that effective internal control arrangements are incorporated into the design or development of systems and procedures. Such arrangements would include ensuring adequate segregation of duties, authorisation and physical security controls to protect the Council from error, misappropriation or loss.

4.8 Members and officers are required to declare any financial and other interest in any outside bodies or organisations which could be considered or perceived as having an influence on their actions on behalf of the Council.

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

Organisational Culture and Conduct

4.10 The Council is determined that the culture and tone of the organisation will continue to be one of honesty and opposition to fraud, bribery and corruption. The Council operates a zero-tolerance approach towards fraud, bribery and corruption activity.

4.11 The Council supports the Seven Principles of Public Life identified by the Nolan Committee and recognises that these are fundamental to developing an effective working environment which does not allow or tolerate fraud, bribery and corruption activity. Further information on the Seven Principles of Public Life can be found at **[Annex 1]** to this document.

4.12 The Council expects that Members and officers at all levels will lead by example in ensuring adherence to legal requirements, rules, procedures and practices. In particular, Members and officers are expected to adhere to their relevant Code of Conduct and declare any interests they may have that could or could be perceived to influence them in any decision-making they may be involved in relating to Council business. Members (where the value is more than £100) and Officers are also required to declare any gifts or hospitality they are offered relating to their role or Council business, whether these are accepted or declined.

4.13 Managers should strive to create an environment in which their staff feel able to approach them with any concerns they may have about suspected irregularities. There is also a Whistleblowing Policy in place to enable staff to raise any concerns where staff feel unable to raise concerns with their manager.

4.14 The Council also expects that individuals and organisations, e.g. suppliers, contractors, partners and service providers that it comes into contact with will act with integrity in their dealings with the Council and without thought or actions involving fraud and corruption.

Internal Scrutiny Arrangements

4.15 The Council has an internal audit function which has the responsibility to objectively examine, evaluate and report on the adequacy of the control environment by evaluating its effectiveness in achieving the organisation's objectives. The work of internal audit will include review of the existence and effectiveness of the Council's internal control arrangements. Any review work undertaken by the internal audit function will give due consideration to the risk of fraud or corruption within the area subject to audit.

4.16 Assurance of the effective operation of internal control arrangements is requested from management annually as part of the Council's arrangements for preparing the Annual Governance Statement. Managers are required to specifically provide assurance on the effective operation of internal control arrangements and staff awareness of this Policy. Managers also have a responsibility to carry out regular risk reviews and to raise concerns if they identify any areas where there is a potential weakness in internal controls.

4.17 The Audit Committee also has a role in providing independent assurance to the Council on the adequacy of the Council’s control environment. This role is discharged by the Committee through the receipt of regular reports on the work and findings of internal and external audit, and the Council’s governance and risk arrangements.

External Scrutiny Arrangements

4.18 The Council is subjected to a high degree of external scrutiny of its affairs by a variety of bodies and people, for example, External Audit and Central Government Departments including DCLG, DWP and Defra through statutory returns.

4.19 As part of its statutory duties, the External Auditor is required to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, bribery and corruption.

Working with Others

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

5 DETECTION OF FRAUD, BRIBERY & CORRUPTION

5.1 The Council has put in place a range of internal control arrangements within its systems and processes to detect inappropriate or dishonest activity, including budget monitoring and reconciliations. These arrangements are designed to detect fraud, corruption and bribery activity should this occur. The Council recognises, however, that the detection of such activity is often as a result of the alertness of Members, employees, the general public and other stakeholders.

5.2 Members, employees, the general public and other stakeholders are encouraged to come forward and report any concerns or suspicions they may have through one of the following:

- Line Manager or Service Manager
- The Council's Internal Audit and Fraud Team (01732 876337)
- The Council's Whistleblowing Policy
- Chief Executive / Monitoring Officer / Director of Finance & Transformation
- The Council's External Auditor, Grant Thornton LLP

5.3 The Council's Financial Procedure Rules require Chief Officers to immediately notify the Director of Finance and Transformation of any financial irregularity or suspected financial irregularity.

5.4 The Council recognises that on occasions, employees, Members and organisations working with the Council may not want to express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice. In such instances, persons are urged to report concerns or suspicions through the channels set out in the Council's Whistleblowing Policy.

6 INVESTIGATION

6.1 Any Manager with information about suspected fraud, bribery or corruption activity must report this immediately to the Internal Audit and Fraud Team. Managers should liaise with the Internal Audit and Fraud Team and Personnel as appropriate to agree the approach to:

- recording and securing all evidence received and collected;
- ensuring that evidence is sound and adequately supported;

and

- implementing Council disciplinary procedures where appropriate.

6.2 The Council has established a corporate approach to co-ordinate the investigation of allegations of fraud and corruption to ensure the effective use of the skills and resources within the organisation. This approach is intended to utilise officers from Internal Audit and Fraud and Personnel based on the nature of the allegation and the investigatory skills required.

6.3 The Council has a formal procedure for conducting such investigations which allows for investigations to be carried out impartially and with complete confidentiality. As well as looking to confirm or refute allegations of fraud and corruption activity reported, investigatory work will also look to identify any improvements in internal control, training needs or other suitable solutions to prevent or deter the reported activity from recurring.

6.4 The Council's disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by a Council employee.

6.5 Where financial impropriety is discovered or it appears that a criminal offence may have been committed, the Council's presumption is that the issue will be pursued. The matter may be referred to the Police. Any such decision will not be seen to prohibit and should not unnecessarily delay action under the disciplinary procedure.

6.6 When making decisions about prosecutions, the Council will have regard to the Code for Crown Prosecutors issued by the Director of Public Prosecutions.

6.7 The Council will seek, where appropriate, to maximise the recovery of any loss to the Council.

6.8 The investigation process must not be misused. The Council will treat any reporting of unfounded malicious allegations seriously. Where employees are concerned, any such finding from the investigation process may be treated as a disciplinary matter.

6.9 Elected Members and employees will be given advice and support, where considered necessary, if they are the subject of any unfounded malicious allegation.

6.10 The Internal Audit and Fraud Team is responsible for all investigations relating to Council Tax fraud including Single Person

Discount, Council Tax Reduction Scheme and discounts and exemptions. These investigations will be undertaken in accordance with the Council's Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy.

7 RESPONSES TO REPORTED CONCERNS AND SUSPICIONS

7.1 Any person or organisation reporting concerns or suspicions of fraud or corruption activity may request to be kept informed of the progress of any investigation or its outcome. The Council reserves the right to not fulfil this request where doing so may be to the detriment of the effectiveness and confidentiality of the investigation process.

7.2 Where people or organisations have raised a concern or suspicion about fraud or corruption activity but are not satisfied with the response they received, they may pursue the matter further by referring the issue through one of the following channels:

- the Council's complaints procedure
- An Elected Member
- The External Auditor Grant Thornton LLP
- Public Concern at Work
- A relevant professional or regulatory body
- A solicitor or the Police

8 ACTION TO DETER FRAUD, BRIBERY & CORRUPTION

8.1 All anti-fraud, bribery and corruption activities undertaken by the Council, including the update of this Policy will be publicised in order to make employees, Members, the general public and stakeholders aware of the Council's commitment to taking action on such activity, when it occurs.

8.2 The Council will endeavour to act robustly and decisively when fraud, bribery or corruption is suspected and proven. This will be demonstrated through disciplinary action or prosecution.

8.3 The Council will take action to help ensure the maximum recoveries for the Council.

8.4 The Council's Media & Communications Team is responsible for optimising the opportunities available to publicise to the public any anti-fraud, bribery and corruption activity being undertaken within the Council. Once notified of such cases, the Media & Communications Team is also responsible for endeavouring to ensure that the results of any investigations undertaken, including prosecutions, are reported in the local press.

9 MEASURING THE EFFECTIVENESS OF THIS POLICY

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

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

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

10 REVIEW AND APPROVAL OF THIS POLICY

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

Annex 1

The Seven Principles of Public Life

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

HOUSING BENEFIT
ANTI-FRAUD POLICY

TONBRIDGE & MALLING BOROUGH COUNCIL

January 2017

Contents

Tonbridge and Malling Borough Council
Housing Benefit Anti-Fraud Policy

1. INTRODUCTION

1.1 The Council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. It is important to detect and prevent fraud and error in the first instance and as such the Council seeks to check and verify all original documents and personal circumstances before making payments or amending existing payments of benefit.

1.2 The Council has an Anti-Fraud and Corruption Policy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.

1.3 This Housing Benefit Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Policy specifically in relation to Housing Benefit Administration and is designed to:

- stop fraudulent claims from entering our systems
- find any fraudulent claims already in the system
- stop payments from going to people who are not entitled to it
- recover fraudulent overpayments of benefit
- deter people from trying to commit fraud

1.4 The Housing Benefit Anti-Fraud Policy will be reviewed at least annually by the Audit and Assurance Manager for approval by the Audit Committee.

2. DEFINITION OF BENEFIT FRAUD

2.1 Benefit fraud is where a person, dishonestly, or not,

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

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

3. CULTURE

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

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

3.3 Instances of suspected/alleged Housing Benefit fraud must be referred to the DWP. Contact details can be found at paragraph 5.3.

4. PREVENTION

Staff

4.1 To reduce the risk of fraud and error it is vital that the qualifications and employment histories of potential employees are comprehensively checked. Benefits staff should also sign a declaration covering any interests that may conflict with their work. For example, receiving housing benefit, or acting as a landlord or agent.

4.2 Employees must declare any circumstances where their personal interests (financial and non-financial) may conflict with those of the Council, e.g. processing a Housing Benefit application form for a relative or friend.

4.3 Benefits staff will receive Fraud Awareness training as part of their induction. Thereafter they will receive annual refresher training.

Systems

4.4 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.

4.5 All Benefits recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.

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

4.7 All manual Housing Benefit records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.

4.8 All valuables, including documentation, must be recorded and tracked through the housing benefit system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.

5. DETECTION

5.1 Surveys have identified that Housing Benefit Fraud is one of the largest area of detected fraud in local government.

5.2 Whilst encouraging genuine claimants to apply for benefit the Council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:

- participation in the National Fraud Initiative data-matching exercise
- publicity of anti-fraud initiatives, and press releases.

5.3 When a potential housing benefit fraud is identified during routine administration the member of staff within the Benefits Section should refer suspected cases of fraud to the DWP Single Fraud Investigation Service in accordance with agreed procedures. In all other instances the individual should use the existing DWP channels:

- Online – www.gov.uk/benefit-fraud
- By Telephone – National Benefit Fraud Hotline 0800 854 440
- By Post – NBFH, PO Box 224, Preston, PR1 1GP

5.4 The Council will take action, including legal recovery, in order to recover all overpayments of housing & council tax benefit that result from fraudulent activity or claimant failure to notify a change of circumstances. The Council's Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by an employee.

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COUNCIL TAX REDUCTION, DISCOUNTS & EXEMPTIONS ANTI-FRAUD POLICY

TONBRIDGE & MALLING BOROUGH COUNCIL

January 2017

Contents

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

1. INTRODUCTION

1.1 Tonbridge and Malling Borough Council is committed to ensuring that the correct levels of council tax liability are collected from its residents and considers that council tax reduction and discounts and exemptions should only be applied to households that meet the necessary criteria. It is important to detect and prevent fraud and error in the first instance and as such the Council seeks to check and verify all original documents and personal circumstances before awarding any reductions, discounts or exemptions, or amending existing reductions, discounts or exemptions.

1.2 The Council is opposed to all forms of fraud and corruption. It recognises that fraud and corruption undermine the standards of public service, which it promotes, and reduces the resources available for the good of the whole community. The Council has issued an Anti-Fraud and Corruption Policy and a Whistleblowing Policy to encourage prevention, promote detection and support the investigation of allegations of fraud or corruption at a corporate level.

1.3 This Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy is designed to reinforce the Anti-Fraud & Corruption Policy specifically in relation to Council Tax Administration and is designed to:

- stop fraudulent applications for reductions, discounts or exemptions from entering our systems
- find any fraudulent reductions, discounts or exemptions already in the system
- punish those people who commit fraud
- recover council tax owed as the result of fraudulently obtained reductions, discounts or exemptions
- deter people from trying to commit fraud

1.4 The Council Tax Reduction, Discounts & Exemptions Anti-Fraud Policy and the associated Sanction & Prosecution Policy will be reviewed at least annually by the Audit and Assurance Manager for approval by the Audit Committee.

2. DEFINITION OF COUNCIL TAX FRAUD

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

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

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

3. CULTURE

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

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

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

4. PREVENTION

Staff

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

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

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

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

4.4 Appropriate staff within the Council will receive Fraud Awareness training as part of their induction; thereafter they will receive annual refresher training. All Fraud Officers will undertake training in order to ensure that they carry out their duties in accordance with recognised standards for Fraud Investigation.

Systems

4.5 It is a management responsibility to maintain the internal control system. This includes the responsibility for the prevention of fraud and other illegal acts. By undertaking an agreed plan of work, internal audit will evaluate the adequacy and effectiveness of these controls as a means of assisting management to discharge its responsibilities.

4.6 All Council Tax recording systems must be designed in consultation with and to the satisfaction of the Director of Finance and Transformation. Access to data must be controlled by use of passwords with an audit trail kept of transactions.

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

4.8 All manual Council Tax records must be kept securely filed when not in use and access to these files must be restricted to designated officers only.

4.9 All valuables, including documentation, must be recorded and tracked through the council tax system until returned to the originator. Where these items are hand delivered a receipt will be given to the originator.

4.10 All telephone calls received in relation to Council Tax Fraud will be recorded manually and a note of the content of the conversation will be kept on file.

5. DETECTION AND INVESTIGATION

5.1 Surveys by the Audit Commission identified that Council Tax Fraud causes significant loss to local government.

5.2 Whilst encouraging genuine people to apply for reductions, discounts and exemptions, the Council has adopted a number of initiatives to detect and prevent fraudulent applications, such as:

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

5.3 All referrals passed to the Fraud Team will be sifted and vetted for strength of evidence. All cases where the evidence is considered sufficient to investigate will be logged and a case file opened.

5.4 The Council’s Disciplinary procedures will be used where the outcome of an investigation indicates improper behaviour by an employee.

5.5 Members of staff within the Council Tax Section should refer suspected cases of fraud to the Internal Audit and Fraud Team. The Team will give feedback to staff regarding the quality of the fraud referral and the outcome of any resulting investigation as appropriate.

5.6 All claims where there is sufficient proof for the Council to believe that a reduction, discount or exemption has been claimed fraudulently will be dealt with under the associated Sanction and Prosecution Policy. The sanctions open to the Council include a Caution, an Administration Penalty (in respect of council tax reduction) or Prosecution.

5.7 The Council will take action, including legal recovery, in order to recover all council tax liability that results from fraudulent activity or a person’s failure to notify a change of circumstances, regardless of whether sanction action takes place, and may consider imposing a civil penalty of £70 for incorrect statements or negligently failing to report changes in circumstances.

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

I. STATEMENT OF INTENT

- Tonbridge and Malling Borough Council has a duty to ensure that all applications for Council Tax reduction, discounts and exemptions are correctly awarded and a responsibility to prevent and detect fraud. Tonbridge and Malling Borough Council is committed to protecting public funds and will consider taking prosecution action against any person suspected of committing fraud in order to reduce their council tax liability.

- Tonbridge and Malling Borough Council has decided that its Prosecution Policy should not be entirely related to the monetary value of the offence. This is because Tonbridge and Malling is an area where liabilities vary widely depending on the location and type of property in question. In these circumstances a purely monetary policy would not be appropriate. All cases will be looked at on their own merit and any mitigating circumstances taken into account.

- The recommendation on whether a case is suitable for sanction action lies with the Audit and Assurance Manager. A sanction recommendation will be completed by the investigating officer and then reviewed by the Audit and Assurance Manager in accordance with the sanction policy to determine what course of action, if any, is appropriate. This review will take into account:

    - The evidential test criteria
    - The Public interest test criteria
    - Value and length of the offence
    - Local prevalence
    - Social and health factors
    - Any other mitigating factors

- Prosecution recommendations will be reviewed by Legal Services and the Chief Financial Services Officer for approval. Cases deemed suitable for prosecution may be dealt with in-house by the Authority's legal team. These cases are generally prosecuted under the Fraud Act 2006 or the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

- Opinion will be gained from a legal professional either in house or private to ensure a robust case is presented at court.

II. EVIDENTIAL CRITERIA

- Tonbridge and Malling Borough Council may consider sanction action if the case is serious enough to warrant it.

- In order for any Sanctions to be considered the case must meet the evidential criteria. In other words is there sufficient evidence for a realistic prospect of a conviction?

- In making this decision, the following factors will be considered:

  - How clear the evidence is
  - If there has been any failure in the investigation
  - If there has been any failure in administrative process

III. PUBLIC INTEREST CRITERIA

- If the evidential criteria are met then the Council will consider whether or not sanction action would be in the public interest. In making this decision, the following factors will be considered first:

  - Medical conditions
  - Other social factors
  - Financial implications compared with losses

- If these still indicate that a sanction is appropriate then the other Public Interest Criteria as shown in The Code for Crown Prosecutors will be considered in order to decide the appropriate sanction.

IV. NO SANCTION OR PROSECUTION

- Tonbridge and Malling Borough Council may consider closing the case without any sanction or prosecution action if:

  - To our knowledge the person has never previously offended
  - The offence is minor
  - The period over which the fraud has been committed is very short
  - The value involved is very low
  - The case does not satisfy the Evidential and Public Interest Criteria

- In cases where no further action is appropriate and an Interview Under Caution has taken place a letter will be issued stating that no further action will take place, however a strong reminder advising of the responsibility to notify changes and provide correct information will be included in the letter.

V. CIVIL PENALTIES FOR INCORRECT STATEMENTS

- Even if it is determined Tonbridge & Malling will not take any sanction or prosecution action in respect of offences committed, they may still consider issuing a civil penalty for making an incorrect statement or failing to notify a change of circumstances.

- The Council may consider imposing a penalty of £70 on a person where:

  - The Person makes an incorrect statement or representation, or negligently gives incorrect information or evidence in or in connection with an application or in connection with the award of a reduction under the council tax reduction scheme
  - Fails to take reasonable steps to correct the error
  - The error results in an award of a council tax reduction which is greater than the amount to which the person was entitled
  - Without reasonable excuse, fails to give a prompt notification of a relevant change of circumstances
  - The failure results in an award of a council tax reduction which is greater than the amount to which the person was entitled
  - The person has not been charged with an offence or cautioned, or been given an administration penalty

VI. SANCTIONS AS ALTERNATIVES TO PROSECUTION

- Where the Council has reviewed a case and is satisfied that an offence has been committed, mitigating factors may suggest that an alternative form of sanction should be considered in the first instance as a more suitable means of disposal.

- These alternative sanctions take the form of a caution or, in the case of Council Tax Reduction, an administrative penalty.

- **A Caution**:

  - Acts as a final written warning for the offence committed
  - Is for council tax administration purposes only
  - Is not a criminal record and, therefore, does not affect a person's employment prospects
  - Remains on record for a period of 5 years
  - Would be cited at proceedings should any subsequent offences be committed within the 5 year period

- The Council may consider issuing a Caution if:

  - To our knowledge the person has never previously offended

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

- **An Administrative Penalty**:

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

- The Council may consider issuing an Administrative Penalty if:

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

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

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

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

- This is because this would indicate that:

- Previous sanctions have not deterred them from re-offending
- Their lack of contrition for the offences committed
- Their disregard for the legislation
- A deliberate and repeated intent to commit fraud
- Their apparent belief that these offences are not serious

➢ Instead Tonbridge and Malling Borough Council may consider referring the case for prosecution.

VII. PROSECUTION

➢ The final decision on whether to refer a case for prosecution lies with the Audit and Assurance Manager. This decision will then be reviewed by Legal Services and the Chief Financial Services Officer for approval.

➢ Once a decision to prosecute has been made, the case will be presented to the Council's Legal Team, who will provide an opinion on the evidential and public interest test.

➢ If the evidential and public interest tests have been satisfied, the case will be authorised by the Legal Team and passed for prosecution. If the Legal Team consider the evidential and public interest test has not been met the case will be referred back to the Fraud Team with a recommendation.

➢ In addition to the Evidential Criteria and Public Interest Criteria outlined above the following will also be taken into consideration:

- Whether the application for reduction, a discount or exemption was false from inception
- The change in circumstances was intentionally withheld
- Whether there was planning in the process
- Whether the suspect was a ring leader or an organiser of the offence
- Any previous incidence of fraud
- Whether there has been any abuse of position or privilege
- The amount of the excess reduction in liability
- The duration of the alleged offence
- Whether there are grounds for believing that the offence was likely to be continued or repeated, based on the person's previous history
- Whether the offence is widespread in the area where it was committed and so prosecution may act as a deterrent
- Whether the person has refused to accept a Caution or Administrative Penalty

VIII. COLLECTION OF COUNCIL TAX

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

Appendix A

CODE OF CONDUCT FOR STAFF INVESTIGATING FRAUD

Code of Conduct & Good Practice for Staff Investigating Fraud

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

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

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

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

General Conduct

Officers of Tonbridge & Malling Borough Council will not:

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

Legislation

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

Evidence (witness and suspects)

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

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

Disclosure of Interests

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

Information

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

Personal Injury and Damage to Property

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

WHISTLEBLOWING POLICY

TONBRIDGE & MALLING BOROUGH COUNCIL

January 2017

Contents

TONBRIDGE & MALLING BOROUGH COUNCIL
WHISTLEBLOWING POLICY

A confidential reporting policy for all Members, employees and contractors

1. Introduction

1.1 Tonbridge & Malling Borough Council operates within legal requirements and regulations and expects its employees to co-operate in this by adhering to all laws, regulations, policies and procedures. The Council recognises that employees are often the first to realise that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.

1.2 The Public Interest Disclosure Act 1998 (the 1998 Act) contains measures which help to promote greater openness between employers and employees in the workplace and supports a structure for whistleblowing. The 1998 Act:

a) is designed to give statutory protection to employees who "blow the whistle" on their employer's malpractice; and

b) although not requiring the Council to set up an appropriate mechanism for dealing with whistleblowing, makes clear the important role that such a mechanism can play in helping the Council comply with the law.

1.3 The Council is committed to the highest possible standards of openness, probity and accountability. In line with that commitment we expect and support employees, and others that we deal with, who have serious concerns about any aspect of the Council's work to come forward and voice those concerns. This policy is intended to encourage and enable individuals to raise concerns within the Council, without fear of reprisals, rather than overlooking a problem or "blowing the whistle" outside. The policy does, however, recognise that individuals must be able to take matters further if they are dissatisfied with the Council's response.

2. Definition of Whistleblowing

2.1 *'Whistleblowing' means the disclosure of malpractice or wrongdoing within an organisation.*

3. Aims and Scope of this Policy

3.1 The Whistleblowing Policy aims to:

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

- provide a way for you to raise concerns and receive appropriate feedback on any action taken;

- confirm that all concerns raised will be examined and the Council will assess what action should be taken;

- reassure you that you will be protected from possible reprisals or victimisation if you have made a disclosure in good faith; and

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

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

- any unlawful act, whether criminal (e.g. theft) or a breach of the civil law (e.g. slander or libel)

- health and safety risks, including risks to the public as well as to other employees (e.g. faulty electrical equipment)

- damage to the environment (e.g. pollution)

- the unauthorised use of public funds (e.g. expenditure for improper use)

- possible fraud and corruption

- inappropriate or improper conduct (e.g. abuse of power, bullying / harassment)

- serious failure to comply with appropriate professional standards (e.g. National Code of Local Government Conduct)

- breach of Council or statutory codes of practice or the Council's standing orders (e.g. Officers' Code of Conduct)

- discrimination on the grounds of race, colour, creed, ethnic or national origin, disability, age, sex, sexual orientation, marital status or class

- abuse of children and vulnerable adults (e.g. through physical, sexual, psychological or financial abuse, exploitation or neglect)

- other unethical conduct.

4. Who does this Policy Cover?

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

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

5. Supporting the Individual Raising a Concern

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

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

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

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

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

5.3 **Untrue Allegations**: Any individual who makes an allegation in good faith, but which is not subsequently confirmed by the investigation, will have no action taken against them. If, however, an individual makes malicious or vexatious allegations or an allegation for personal gain, disciplinary action may be taken against them.

6. How to Raise a Concern

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

- Is it illegal?
- Does it contravene professional codes of practice?
- Is it against government guidelines?
- Is it against the Council's guidelines?
- Is it about one individual's behaviour or is it about general working practices?
- Does it contradict what the employee has been taught?
- Has the employee witnessed the incident?
- Did anyone else witness the incident at the same time?
- Where an individual is unsure whether to raise a concern they should contact the Internal Audit and Fraud Team for advice.

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

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

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

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

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

- Concerns may be raised verbally or in writing. Employees who wish to make a written report should give the background and history of the concern and the reason why they are particularly concerned about the situation. The earlier concerns are expressed the easier it is to take action. A form is available at Appendix 1 of this policy for those wishing to raise a concern in writing.

- If the employee wishes, they may ask for a private meeting with the person to whom they wish to make the complaint. An employee may take a Trade Union representative or work colleague with them as a witness or for support. The employee should take to the meeting, if possible, dated and signed written supporting statements from anyone who can also confirm the allegations.

- When making the complaint verbally the employee is encouraged to write down any relevant information and date it. Copies of all correspondence and relevant information should be retained.

- The employee should ask the person to whom they are making the complaint what the next steps will be and if anything more is expected of them.

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

7. How the Council will Respond

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

7.2 Concerns raised may:

- be resolved by agreed action without the need for investigation;

- be investigated by management;

- be investigated by the Internal Audit and Fraud Team and or Personnel;

- be referred to the Police;
- be referred to the External Auditor.

7.3 As soon as possible, and in any case within 10 working days of a concern being raised, the person handling the matter will either write to or email the individual raising the concern acknowledging that it has been raised and indicating how, as far as possible, it will be dealt with. The individual will be kept informed of progress and will receive a full and final response, subject to any legal constraints.

7.4 The amount of contact between the persons considering the issues and the individual(s) raising the concern will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary to pursue investigation activity, the Council will seek further information from the individual. Where any meeting is arranged, the individual may be accompanied by a union or professional association representative or a friend or colleague.

7.5 The Council will take steps to minimise any difficulties which individuals may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings, the Council will arrange for you to receive advice and support in doing this.

8. How the Matter can be Taken Further

8.1 This policy is intended to provide individuals with an avenue to raise concerns within the Council. The Council hopes that those using this process will be satisfied with the way their concerns are treated and any investigations that may be carried out. However, if they are not satisfied, or feel it is right to take the matter outside the Council, the following are possible contact points:

- The Council's External Auditor, currently Grant Thornton UK LLP
- Public Concern at Work (Tel: 020 7404 6609, www.pcaw.co.uk) who are a registered charity whose services are free and confidential
- The local Citizens Advice Bureau
- Relevant professional bodies, Trade Unions or regulatory organisations
- Unison's whistleblower's hotline 0800 597 9750
- The Police
- A solicitor

- The Local Government Ombudsman.

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

9. Review and Approval of this Policy

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

Appendix 1

WHISTLEBLOWING POLICY - REPORT OF A CONCERN

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

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

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

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

Name……………………………………

Contact details……………………………………………………………………………..

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

Signed……………………………. Date…………………………..

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT CHARTER

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

1.1 Introduction

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

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

1.2 Review of the Internal Audit Charter

1.2.1 The current Internal Audit Charter was approved by the Audit Committee in January 2016. A review of the Charter found that it continues to meet the requirements of the PSIAS and CIPFA's Local Government Application Note to the Standards, only one minor amendment to the content was required (highlighted as a track change). A copy of the updated Charter is attached at **[Annex 1]**.

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

1.3 Legal Implications

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

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

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

1.5.1 The Internal Audit Charter establishes the purpose, authority and responsibility of the Council’s internal audit function. It is, therefore, vital that the Council periodically reviews the Charter to ensure that the internal audit function is effective in delivering its responsibilities and that the Charter itself is compliant with proper practice.

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

1.6 Equality Impact Assessment

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

1.7 Recommendations

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

Background papers: contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

INTERNAL AUDIT CHARTER

Purpose

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

Authority

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

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

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

Professionalism and Professional Standards

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

Organisational Relationships

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

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

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

INTERNAL AUDIT CHARTER

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

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

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

Relationship with the Monitoring Officer

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

Relationship with the Chief Executive & Head of Paid Service

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

Relationship with Management Team

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

Relationship with the Audit Committee

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

Relationship with External Audit

The CAE will liaise with External Audit to:

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

In particular the CAE shall:

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

INTERNAL AUDIT CHARTER

Independence and Objectivity

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

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

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

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

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

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

Responsibility

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

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

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

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Council's Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee. The CAE is responsible for the Council's counter fraud activity including maintenance of the Anti-Fraud & Corruption Policy which sets out arrangements for all suspected or detected fraud, corruption or impropriety to be reported to Internal Audit.

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

Partnership Working

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

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

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

- engaged agency staff;
- engaged consulting services.

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

Internal Audit Plan

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

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

Reporting and Monitoring

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

The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

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

Quality Assurance and Periodic Assessment

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

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

Signed by:

Chief Audit Executive (CAE)

Chair of the Audit Committee

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 ACCOUNTING POLICIES

This report presents the Accounting Policies proposed for the 2016/17 Financial Statements for consideration and endorsement.

1.1 Introduction

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

1.1.2 A change proposed to be made to the current Accounting Policies is a more explicit policy to clarify the basis on which revenue is recognised in the financial statements recommended by our external auditors following the audit of the 2015/16 Accounts. For ease of reference the proposed change is detailed below.

Accruals and Revenue Recognition

Income and expenditure is accrued to ensure that it is accounted for in the year to which it relates, not when cash payments are made or received. In particular:

- *Revenue from the sale or provision of goods and services is recognised when it is probable that the economic benefit will flow to the Council.*
- *Supplies are recorded as expenditure when they are consumed, where supplies remain unconsumed as at the balance sheet date they are carried as inventories on the Balance Sheet.*
- *Expenses in relation to services received, including services provided by employees, are recorded as expenditure when the services are received rather than when payments are made.*
- *Revenue relating to council tax and business rates will be recorded at the full amount receivable, net of any impairment losses. These transactions are deemed to be of a non-contractual, non-exchange nature in that there is no difference between the delivery of services and the payment of the debt raised.*

- *Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant investment rather than the cash flows for the redemption of the investment or interest due dates.*

Where income or expenditure has been recognised within the income and expenditure account, but cash has not been received or paid, a debtor or creditor for the amount stated will be recorded on the Balance Sheet. Where debts raised may not be settled, the balance of debtors will be adjusted by an impairment adjustment charged to the revenue account.

Exceptions to these principles are electricity, gas and similar periodical payments which are charged at the date of meter reading rather than being apportioned between financial years; and penalty charge notices and licensing fees which are accounted for on the day of receipt. This policy is consistently applied each year and its effect on the Accounts is not considered to be material.

1.1.3 There have also been a small number of technical or textual changes made including the de-Minimis level has been increased to £10,000 for the purposes of capital expenditure.

1.2 Legal Implications

1.2.1 The Accounts are to be prepared in accordance with the Code of Practice on Local Authority Accounting of which the Accounting Policies form an integral part.

1.3 Financial and Value for Money Considerations

1.3.1 None.

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Recommendations

1.6.1 Members are asked to **consider** and **endorse** the Accounting Policies to be used in the preparation of the 2016/17 Financial Statements as set out at **[Annex 1]**.

Background papers: contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

1. ACCOUNTING POLICIES

a) General

The Statement of Accounts summarises the Council's transactions for the financial year and its position at the year-end. The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17*. The Code is based on levels of approved accounting standards:

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

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

b) Qualitative Characteristics of Financial Information

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

c) Accounting Concepts

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

d) Accruals and Revenue Recognition

Income and expenditure is accrued to ensure that it is accounted for in the year to which it relates, not when cash payments are made or received. In particular:

- Revenue from the sale or provision of goods and services is recognised when it is probable that the economic benefit will flow to the Council.
- Supplies are recorded as expenditure when they are consumed, where supplies remain unconsumed as at the balance sheet date they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received, including services provided by employees, are recorded as expenditure when the services are received rather than when payments are made.
- Revenue relating to council tax and business rates will be recorded at the full amount receivable, net of any impairment losses. These transactions are deemed to be of a non-contractual, non-exchange nature in that there is no difference between the delivery of services and the payment of the debt raised.
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant investment rather than the cash flows for the redemption of the investment or interest due dates.

Where income or expenditure has been recognised within the income and expenditure account, but cash has not been received or paid, a debtor or creditor for the amount stated will be recorded on the Balance Sheet. Where debts raised may not be settled, the balance of debtors will be adjusted by an impairment adjustment charged to the revenue account.

Exceptions to these principles are electricity, gas and similar periodical payments which are charged at the date of meter reading rather than being apportioned between financial years; and penalty charge notices and licensing fees which are accounted for on the day of receipt. This policy is consistently applied each year and its effect on the Accounts is not considered to be material.

e) Assets Held for Sale

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

f) Cash and Cash Equivalents

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

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

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

Similarly, the Council acts as an agent for the Government, Kent County Council and Kent Fire and Rescue in respect of Business Rates and as such the Accounts show the amount owed by and to taxpayers in respect of our proportion of the Business Rates and the other bodies covered by the Business Rates Retention scheme as a net debtor or creditor. The Council is a member of the Kent Business Rates Pool as approved by the Secretary of State in December 2015 where payments to Kent County Council and Kent Fire and Rescue are made via the administering authority, Maidstone Borough Council. As a member of the Business Rates Pool where the business rates income exceeds our baseline funding level the levy payable to central government is less than it would otherwise be, and where a safety net payment is due this is to be met by the Pool rather than central government.

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

h) Contingent Assets and Liabilities

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

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

i) Debt Write-Off

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

j) Employee Benefits

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

Benefits Payable during Employment

This covers:

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

Termination Benefits

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

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

Post-Employment Benefits

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time employees earn their future entitlement. The Local Government Pension Scheme is administered locally by Kent County Council – this is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2014, is contracted out of the State Second Pension and currently provides benefits based on career average revalued salary and length of service on retirement, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2016.

k) Events After the Balance Sheet Date

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

The authorised for issue date is:

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

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

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

l) Exceptional Items and Prior Period Adjustments

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

Prior period adjustments arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified and are accounted for accordingly. Material adjustments applicable to prior periods arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period and adjusting the appropriate opening balances for the cumulative effect.

m) Financial Instruments

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

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

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

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

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

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

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

n) Foreign Currency Transactions

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

o) Government Grants and Other Contributions

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

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

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

p) Inventories

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

q) Leases

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

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

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

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

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

r) Non-Current Assets

The Council has set a de-minimis level of £10,000 for the purposes of capital expenditure. In the case where the individual value of an item, e.g. IT equipment is below the de-minimis level , but the aggregate value of similar items purchased in the year exceed the de-minimis level the expenditure may be treated as capital expenditure.

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

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

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

The policy for each type of asset is explained as follows.

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

Asset Category	**Year of Valuation**	
Car Parks	2011/12	Completed
Leisure Premises	2012/13	Completed
Properties for Community Use	2013/14	Completed
Public Conveniences	2014/15	Completed
Council Offices	2015/16	Completed
Car Parks	2016/17	Completed

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Heritage assets are not subject to depreciation.

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. The fair value of these assets can be attributed in three ways.

- Level 1 - Quoted prices in active markets for identical assets/liabilities that the authority can access at the measurement date.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for the asset or liability.

For the purposes of investment property fair value will be determined at level 2 using market knowledge and indices on market values of compatible properties.

Properties are subject to revaluation on an annual basis in accordance with market conditions at the year-end. However, due to the nature and size of the portfolio held full valuation reviews are carried out once every five years or earlier where there is a material change in value.

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

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

Investment properties are not subject to depreciation.

Intangible Assets

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

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

Impairment of Non-Current Assets

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

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

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

Gains or Losses on Disposal of Non-Current Assets

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

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

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

s) Overheads

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

t) Provisions

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

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

u) Reserves

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

v) Revenue Expenditure Funded from Capital Under Statute

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

w) Value Added Tax (VAT)

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

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 PROPOSED WORK PROGRAMME AND SCALES OF FEES 2017/18

This report informs Members of the Proposed Work Programme and Scales of Fees for 2017/18 pertaining to work undertaken by our external auditors.

1.1 Introduction

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

1.1.2 Looking beyond 2017/18, the Secretary of State has specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.1.3 The Proposed Work Programme and Scales of Fees for 2017/18 can be found at **[Annex 1]**. The PSAA do not plan to make any changes to the overall work programme for 2017/18 and propose that 2017/18 scale audit fees are set at the same level as this year. Indicative fees for 2017/18 housing benefit subsidy certification work will be based on final 2015/16 certification fees.

1.1.4 In addition, following completion of the Audit Commission's accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. This and other surpluses from audit fees are to be distributed to audited bodies in due course. The amount of the redistribution is likely to be in the order of 15% of scale audit fees.

1.1.5 Members should note that this is technically a consultation process and the return date for comments was 12 January 2017. On this occasion it was concluded there were no particular comments that needed to be made in response to the consultation.

1.1.6 Following consideration of responses to this consultation, the PSAA Board will approve the final 2017/18 Work Programme and Scales of Fees for publication in late March 2017.

1.2 Legal Implications

1.2.1 Legally, we have no choice but to accept the final version of the Work Programme and Scales of Fees for 2017/18 and will continue to cooperate with our external auditors who serve us.

1.3 Financial and Value for Money Considerations

1.3.1 Both the audit fee for 2017/18 and the indicative fee for grant certification work can be met from within existing budget provision.

1.4 Risk Assessment

1.4.1 None.

1.5 Equality Impact Assessment

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

1.6 Recommendations

1.6.1 Members are asked to **note** and **endorse** the 2017/18 Proposed Work Programme and Scales of Fees.

Background papers: contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

Public Sector Audit Appointments

Proposed work programme and scales of fees 2017/18

Local government and police bodies

October 2016

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

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

As a consequence of these delegations, for 2017/18 the company will continue to be responsible under transitional arrangements for appointing auditors to local government and police bodies, for setting audit fees and for making arrangements for certification of housing benefit subsidy claims.

Looking beyond 2017/18, the Secretary of State has specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Contents

Introduction

1 This consultation document sets out the work that auditors will undertake at principal local government and police audited bodies during 2017/18, with the associated proposed scale audit fees and indicative certification fees.

2 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2017/18 scale fees, as well as supporting audited bodies' financial planning.

Background

3 The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis from 1 April 2015.

4 In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.

5 PSAA's responsibilities under the transitional arrangements include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities is available on our website.

6 From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. PSAA will play a new and different role in these arrangements.

2017/18 fees

7 There are no changes to the overall work programme for local government and police audited bodies for 2017/18. We therefore propose that 2017/18 scale audit fees are set at the same level as the scale fees applicable for 2016/17.

8 The proposed scale fees for 2017/18 reflect the significant fee reductions of up to 55 per cent made to scale fees since 2012/13. When these reductions were made, the expectation was that they would continue to apply for the length of the current audit contracts, providing there are no significant changes to auditors' work, and subject to annual review.

9 PSAA may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.

10 For authorities with highways network assets, a change in accounting requirements implemented by CIPFA/LASAAC in 2016/17 will continue to require some additional audit work in 2017/18. The fee variation process will apply in 2017/18 for this additional work, because the amount of work will vary at each authority.

Distribution of surplus

11 Following completion of the Audit Commission's accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA operates on a not-for-profit basis and will therefore distribute this and any other surpluses from audit fees to audited bodies on a timetable to be established during 2017. The amount of the redistribution is likely to be in the order of 15 per cent of scale audit fees for local government bodies.

New local audit arrangements

12 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

13 PSAA will therefore make auditor appointments to principal local government bodies that choose to opt into the national scheme the company is developing with the sector, for audits of the accounts from 2018/19.

14 We intend to run the scheme in a way that will save time and resources for local public bodies. A collective procurement will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality. Using the scheme will avoid the need for opted-in authorities to:

- establish an audit panel with independent members;
- manage their own auditor procurement and cover its costs;
- monitor the independence of their appointed auditor for the durations of the appointment; and
- manage the contract with the auditor.

15 We expect to issue the invitation to opt into the national auditor appointment arrangements at the end of October 2016 with an expected deadline for responses in early March 2017.

16 Further information is available on the appointing person page of our website.

Responding to this consultation

We welcome comments on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@psaa.co.uk

The consultation will close on **Thursday 12 January 2017**.

Proposed work programme for 2017/18

Audit

17 Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. Further information on the NAO Code and guidance is available on the NAO website.

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

Audit work on highways network assets

19 New requirements were introduced from 2016/17 in the *Code of Practice on Local Authority Accounting in the United Kingdom* in relation to the measurement requirements for highways network assets.

20 As we have set out in the 2016/17 work programme and fees published on our website in March 2016, fees for the additional work identified by auditors at individual audited bodies for 2016/17 will be subject to approval under the normal fee variations process. An expected range of £5,000 to £10,000 will apply, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use.

21 Fees for additional audit work required for 2017/18 will also be approved under the fee variations process, with a lower expected range of £3,000 to £6,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. These fee ranges are indicative, and costs outside them may be necessary in some cases.

Auditors' local value for money arrangements work

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

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

Certification work

24 At the request of the Department for Work and Pensions, auditors appointed by PSAA will certify local authority claims for housing benefit subsidy for 2017/18. This is the final year in which these certification arrangements will apply.

25 Auditors will undertake this work as agents of PSAA, using guidance based on the arrangements previously developed by the Audit Commission.

National report

26 PSAA will publish an annual report summarising the results of auditors' work on audited bodies' 2017/18 financial statements and arrangements to secure value for money.

Proposed scales of fees for 2017/18

Scales of audit fees for local government and police bodies

27 The scales of fees for 2017/18 reflect the cost of the work programme outlined above. The proposed 2017/18 scale fee for each local government and police audited body is available on our website.

28 The proposed scale audit fees for 2017/18 audits are the scale fees applicable for 2016/17.

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

30 As the 2017/18 scale fees are based on the scale fees for 2016/17, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur for 2017/18 where these factors are significantly different from those identified and reflected in the 2016/17 scale fee.

31 PSAA obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. We consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by PSAA.

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

Pension fund audits

33 The proposed scale fees for 2017/18 pension fund audits are the scale fees applicable for 2016/17. The proposed individual pension fund audit scale fees for 2017/18 are available on our website.

Certification work

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

35 An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2017/18 housing benefit subsidy certification work will be based on final 2015/16 certification fees. We will receive this information from auditors in January 2017, after this consultation has closed, and will publish indicative 2017/18 certification fees on our website in March 2017.

36 For the purposes of this consultation, audited bodies and stakeholders may wish to refer to the indicative certification fees for 2015/16, published on our website.

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

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

Value added tax

39 All the 2017/18 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Next steps

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

41 We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Thursday 12 January 2017**.

Please send comments by email to:

workandfeesconsultation@psaa.co.uk

42 Following responses to this consultation, the PSAA Board will approve the final 2017/18 work programme and scales of fees for publication in late March 2017.

43 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.

TONBRIDGE & MALLING BOROUGH

AUDIT COMMITTEE

23 January 2017

Report of the Chief Executive and Director of Central Services

Part 1- Public

Matters for Information

1 LOCAL CODE OF CORPORATE GOVERNANCE

This report provides an update to Members of the Audit Committee regarding changes required to the Local Code of Corporate Governance

1.1 Introduction

1.1.1 Tonbridge and Malling Borough Council is committed to adopting the principles of good governance and demonstrates this publicly through the adoption and continued maintenance of a local Code of Corporate Governance, as recommended within the CIPFA/SOLACE (Chartered Institute of Public Finance & Accounting and the Society of Local Authority Chief Executives) document 'Delivering Good Governance in Local Government Framework 2016' (referred to in this report as the "2016 Framework").

1.1.2 The 2016 Framework defines governance as 'the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved'.

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

1.2 Review of the Local Code of Corporate Governance

1.2.1 The 2016 Framework is significantly amended from the previous framework published in 2012. The revised framework requires a detailed reconsideration and redrafting of the Local Code. A copy of the current version of the Local Code is at Annex 1 to this report.

1.2.2 An internal audit "gap analysis" has highlighted a number of areas where the current Local Code may not meet the requirements of the 2016 Framework. In particular, many of the requirements link to provisions in the Council's Constitution, which is currently also under review, with a view to submission of a revised constitution for scrutiny at the Overview and Scrutiny Committee during the early part of 2017.

1.2.3 The "gap analysis" has identified practices under the 2016 Framework which the Council was not previously required to (and consequently did not) adopt (for example, the adoption of formal protocols to establish the roles and relationships of the Leader and Chief Executive by negotiation). Officers are currently considering how these gaps might best be addressed and what authority might be required for such changes.

1.2.4 The Local Code informs the Annual Governance Statement. Where there are new practices required under the 2016 Framework which the Council has not yet adopted, the Council may undertake in the Annual Governance Statement to make progress towards adopting those proposals within the coming reporting period.

1.2.5 Officers anticipate providing a draft Local Code for consideration, along with a report identifying those new practices which the Council will need to take steps to adopt, at Audit Committee in April.

1.3 Legal Implications

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

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

1.5.1 Adoption of a Local Code of Corporate Governance is seen as good practice in that it demonstrates how the Council ensures it operates in a proper way and in accordance with the law and as such is subject to annual review to ensure it remains fit for purpose. Not do so may attract unwelcome comment/criticism.

1.6 Equality Impact Assessment

1.6.1 No decisions are recommended through this paper.

FOR INFORMATION

Background papers: contact: Adrian Stanfield

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

Julie Beilby
Chief Executive

Adrian Stanfield
Director of Central Services

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

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

Internal Audit Update

1.1 Introduction

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

1.2 Progress against the 2016/17 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2016/17 was approved by this Committee on the 5 April 2016. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2016/17 against the Plan and finalisation of any work brought forward from the 2015/16 Plan.

1.2.2 The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work. Of the items on the Plan, 24 were audits and two were proactive fraud reviews that would result in an assurance opinion. The remainder of items on the plan relate to consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

1.2.3 One audit originally planned as an assurance review was changed to consultancy work, as discussed at the June Audit Committee meeting, to facilitate revision of the current Risk Management Strategy and development of a Corporate Risk Register based on the Corporate Strategy. Training for the Committee on Risk Management is planned ahead of the January meeting, with the revised Strategy to be presented at this January meeting.

1.2.4 We have combined the scheduled audit of Complaints with the Programme Management Audit and will focus on the implementation of the new complaints system.

1.2.5 The team to date have issued final reports and agreed management action plans in respect of seven 2016/17 audits and two 2015/16 audits brought forward. One remaining audit brought forward requires additional follow-up work and will be reported in April. A draft report has been issued for a further three audits, with four audits currently underway and planning in progress for six more. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2016/17 Plan and the brought forward 2015/16 work, including a summary of findings where finalised, is attached to this report at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

1.2.6 We are in the process of following-up agreed management actions following audit work and will report on progress in April.

Fraud Update

1.3 Prevention and Detection of Fraud and Corruption

1.3.1 This section of the report provides details of the Council's activity in preventing and detecting fraud and corruption in the year 2016/17 to date. The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. The next full round of data matching was completed in October 2016 with matches to be received in January 2017. An update will be provided at the April 2017 meeting of this Committee.

1.3.2 Annual data matching is undertaken between the electoral roll and Council Tax Single Person Discount, the most recent results were received in January 2016, 708 matches were received and all of these have been reviewed, 663 matches have been closed with errors found in 169 cases. There are 45 cases currently being actively investigated.

1.3.3 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 2016. The partnership will deliver a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI. The first round of data matching was undertaken in September and the results made available in October. 5 data mismatches were received, of which 3 were closed with no further action required and 2 have been referred to compliance. A further update will be provided to the April Committee.

1.3.4 Meetings are being set up with key stakeholders to take forward other proactive work in the 2016/17 Audit and Fraud Plan. A more comprehensive update on progress, key areas of fraud risk and work planned or undertaken will be provided to the April Audit Committee.

1.4 Investigating Fraud

1.4.1 The Fraud Team is responsible for investigating allegations of fraud and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required.

1.4.2 In 2016/17 to date, the Fraud Team have closed 270 cases (this includes those carried over from the previous year) and received a total of 261 referrals including NFI; there are 39 ongoing investigations. The total amount of income due as a result of investigations to end of December is £55,037.31 with increased annual liability of £39,962.27. **[Annex 3]** summarises the results of investigations concluded in 2016/17 to date.

1.4.3 We issued the first Single Person Discount Caution given by Tonbridge & Malling Borough Council and we also charged a penalty on 2 concluded council tax reduction support investigations plus a further penalty following a DWP investigation.

1.5 Legal Implications

1.5.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

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

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

1.6 Financial and Value for Money Considerations

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

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

1.7 Risk Assessment

1.7.1 This report, summarising the work of the Internal Audit function, provides a key source of assurance for the Council on the adequacy and effectiveness of its internal control arrangements.

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

Background papers: contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

2016-17 Internal Audit Assurance Reviews

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

Public Health	1	Complete	Amber	This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs): RMO1 - TMBC deliver the outcomes from the core service specifications from KCC and actively work towards achieving the set targets of the funding agreement. The Healthy Living team fulfil the requirements of the Service Level Agreements from KCC's Public Health Team. However the performance of commissioned providers should be reviewed to ensure the accuracy and quality of the performance figures submitted. RMO2 - The spend for Public Health is adequately monitored against the Budget. The funding received from KCC is spent appropriately with the contingency of a reserve built up from consistent underspend in previous years. RMO3 - Delivery and outcomes of Public Health initiatives are accurately and consistently reported to management and KCC. The Healthy Living team fulfil the required reporting arrangements to KCC Public Health and appropriate internal and external boards and committees. Figures and statements reported are accurate and relevant.

Debtors inc debt recovery	1	Complete	Amber	This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs): RMO1 - Invoiced income is appropriately managed to ensure that all income due is received, banked and reconciled timely. Procedure notes require review and updating. Some duplicate debtor accounts and invoices were identified and some credit notes had not been authorised. Invoices had been paid correctly and allocated to the correct ledger codes. RMO2 - The finance system is appropriately reconciled to ensure that any discrepancies are quickly identified and addressed. Gaps were identified with the monthly reconciliation between the sales and general ledgers due to staff absence and IT issues. Other reconciliations were completed appropriately. RMO3 - Refunds are effectively managed to ensure that monies owed are paid promptly to maintain good customer relationships. Refunds were effectively managed. RMO4 - Effective processes are in place to identify and manage debts and write-offs (including aged debts), with appropriate reporting to management. Recovery and write-off has been disjointed for the past financial year due to a change of debt collection agency. A new debt recovery agency was appointed in July 2016.
Recruitment Strategy	1	Postponed to Q4		
Risk Management	2	Complete	N/A	Consultancy piece of work with Risk Management Strategy rewritten with accompanying guidance.
Demand Management	2	Quality Assurance		

Financial Planning & Budget Monitoring	2	Complete	Green	This audit reviewed the Council's arrangements in respect of the following scope areas: Financial Planning: - The annual budget, Medium Term Financial Strategy, and Savings & Transformation Strategy all aligned and had been authorised. Known and anticipated risks were identified and assessed during the planning process and subsequent periodic reviews, and included in the Section 151 officer's annual statement. Management Team and Members are provided with regular updates of the Council's financial planning. Budget Monitoring: - Changes of budget holders had not been reported to accountancy and therefore records updated. Guidance on use of budget monitoring systems and reports is available. There was no uniformity in how budgets are reviewed by budget holders; although our work showed that such reviews were proportionate to the size of budget. Chief Officers sign a Summarised Budgetary Control Report to confirm budgets have been checked by their, although half the reports were not returned timely to Accountancy. Variances are appropriately checked by Accountancy.

Capital Programme Monitoring	2	Complete	Green	This audit reviewed the Council's arrangements in respect of the following scope areas: Alignment of the Capital Programme with Capital Strategy:- All business cases reviewed had clear links to the key criteria for Capital Projects detailed in the Capital Strategy, and were appropriately approved. Income and expenditure was accurately recorded in the Medium Term Financial Strategy. Standard templates for potential projects were completed and generally adequate although a number of additions were recommended for inclusion, e.g. milestones, key risks, and measurable criteria. Monitoring & Delivery of the Capital Programme:- Members were advised of budgets for projects. However, other than the Communities and Housing Advisory Board, progress against key milestones is not normally reported alongside budget information. Comprehensive records were maintained. There were a number of overdue and outstanding post-implementation reviews. Notable variances between approved budgets and final post budget completion were being reported.
Asset Management of IT equipment, inc acquisitions and disposals	2	Fieldwork		

Council Tax and Business Rates Recovery	2	Complete	Green	This audit reviewed the Council's arrangements in respect of the following scope areas: Documented procedure notes:- Procedures were in line with the Corporate Debt Recovery Policy. Timely identification of accounts in arrears:- Identification was timely with reminders sent at appropriate intervals. Options to pay by special arrangements and crediting of accounts:- Assistance is offered to tax payers who seek help. Payment arrangements were fair and equitable with signposting to independent advice services. Collection rates are monitored and reported:- Recovery rates and arrears are accurately reported. Instigation of legal proceedings, use of Enforcement Agents, review of accounts for further action and write-offs:- There was appropriate use of legal proceedings and Debt Recovery Agents. Reasonable attempts to recover debts were made before being passed for write-off, including those returned by the Debt Agency. Appropriate segregation of duties and authorisation was in place.
Corporate Governance – Phase 1	2	Draft Report	TBC	
Review of controls to prevent fraud in Business Rates	3	Planning		
Review of controls to prevent fraud in relation to grants and financial support	3	Planning		
Partnerships	3	Draft Report	TBC	

Payroll	3	Complete	Green	This audit reviewed the Council's arrangements in respect of the following scope areas: Procedure Notes:- Procedure notes require review and updating. Access to the payroll system:- Access rights to the Payroll system were appropriate; however there are no regular reviews to ensure that erroneous profiles or access rights have been granted. Variation and Deduction processes:- All allowances, deductions, amendments and variations were processed timely, accurately, and appropriately authorised. Relevant and required evidence of changes was retained.
Business Continuity Planning – Emergency	3	Fieldwork		
Housing Benefits Overpayments	3	Draft Report		
Project and Programme Management	3	Planning		
Complaints	3	N/A		This audit is merged with Project and Programme Management
Safeguarding	3	Planning		
IT Strategy & Infrastructure	4	Planning		
Leisure Development – external provision	4	Fieldwork		
Development Control	4			
Housing – Empty Property Follow Up	4			
Parking Income	4	Planning		
Local Plan	4			

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

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

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

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Definitions of Audit Opinions

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

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

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

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

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Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error / Incorrect Discount	Fraud Proven	Total due to be repaid to TMBC	Increase In liability (annual amount)	No of Penalty Charges	Total £ Penalty charge
Housing	**8**	**7**	**1**	**0**	**£0.00**	**£0.00**	**0**	**£0.00**
Council Tax Reduction	**15**	**3**	**10**	**2**	**£12,508.17**	**£9,091.68**	**3**	**£210.00**
SPD	**240**	**151**	**88**	**1**	**£38,825.55**	**£30,870.59**	**61**	**£4,270.00**
SPD & CTR	**2**	**1**	**1**	**0**	**£1,562.18**	**£0.00**	**1**	**£70.00**
NNDR	**2**	**2**	**0**	**0**	**£0.00**	**£0.00**	**0**	**£0.00**
DHP	**0**	**0**	**0**	**0**	**£0.00**	**£0.00**	**0**	**£0.00**
Council Tax Liability	**3**	**1**	**2**	**0**	**£2,141.41**	**£0.00**	**0**	**£0.00**
	270	**165**	**102**	**3**	**£55,037.31**	**£39,962.27**	**65**	**£4,550.00**

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON PAPER – ADVANCING CLOSURE

The following report gives details of a paper by Grant Thornton on Advancing Closure, Transforming the financial reporting of local authority accounts.

1.1 Background

1.1.1 On 17 February 2015, Regulations were laid before Parliament confirming proposals to bring forward the date the Accounts are to be ready for audit and publication of the audited accounts to 31 May and 31 July respectively with effect from the 2017/18 financial year.

1.1.2 In the interim Grant Thornton have published a paper to assist local authorities on how to improve their own accounts closure procedures to comply with the new deadlines, together with a Good practice checklist attached at **[Annex 1]**. The paper can be found at:

http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/grt103821_faster-close-report-v07-web-version.pdf

1.2 Implications of Earlier Closure and Publication

1.2.1 The earlier publication of the audited accounts is part of the Government's strategy to improve transparency and accountability. The Government believes that a quicker closedown process will heighten the public interest in the accounts of local authorities; and the extended narrative report and changes to the accounts aim to make the financial position of the authority easier to understand.

1.2.2 Information required from third parties is an important factor in the timely closure of the Accounts if deadlines are to be met. Areas detailed in the report that could require review include:

- Pensions – currently pension information is received from KCC Pensions the first week in May. Earlier receipt of this information will assist the closedown process.

- Asset Values – the current arrangement is for asset values to be reviewed as at 1 January each year and subsequent confirmation at the end of the year that there has been no material change in that time.

1.3 Implications for Officers

1.3.1 The current deadline for publication of the accounts ready for audit and audited accounts are 30 June and 30 September respectively. The authority has met these deadlines for a number of years.

1.3.2 Officers currently have a robust and tested closedown procedures and timetable for the preparation of the Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

1.3.3 The timetable currently schedules the Accounts to be reviewed by senior staff within Financial Services and the Corporate Management Team by mid to late May. This suggests the new deadline for the Accounts to be ready for audit can be achieved within the current timetable.

1.3.4 Officers plan to meet with Grant Thornton early in 2017 to review the working papers used to prepare the Accounts to see if there are changes that could be made to assist with the completion of the audit.

1.4 Implications for Auditors

1.4.1 The current duration of the audit of the accounts is currently 3-4 weeks site work plus up to a further 3 weeks of review and potential follow-up questions from senior members of the Audit Team and subsequent production of the final audit report for Committee approval. Our external auditors are in the process of reviewing working practices in light of the revised deadline. Early indications are that that there will be more pre-audit or interim audit inspection taking place prior to year-end. This will need to take into account other work pressures at that time, e.g. budget preparation and or annual billing.

1.5 Implications for Members

1.5.1 Currently the Audit Committee meet in June to approve the unaudited accounts and again in September to approve the audited accounts.

1.5.2 Regulations require the unaudited accounts to be approved by the authority's Section 151 Officer, the Director of Finance and Transformation and the audited accounts to be approved by Members at the conclusion of the audit. To meet the revised deadline for approval of the audited accounts a meeting of the Audit Committee is to be scheduled for late July. In turn, the meeting scheduled for September could move to October. Whether the current meeting in June will be required is the subject of consideration.

1.6 Legal Implications

1.6.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement.

1.7 Financial and Value for Money Considerations

1.7.1 None.

1.8 Risk Assessment

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

Background papers: contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

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Good practice checklist

Key Considerations	Yes / No	Comments
Leadership and Planning		
Has the authority clearly defined roles and responsibilities across the organisation in relation to its financial reporting?		
Has the authority clearly communicated the statutory timetable and its commitment to faster closing, both to officers and members?		
Has senior management signed up to the plans and taking an active role to promote its importance and the benefits that will result?		
Are members and senior management routinely updated on the progress made in delivering the authority's closedown plans?		
Has the authority ensured that audit committee and council meetings are brought forward to reflect the earlier timetable?		
Project planning		
Has the authority appointed a project manager, of sufficient seniority within the finance team, to oversee the delivery of the project?		
Have the necessary staff resources been identified to support the delivery of the project and the impact this will have on their other responsibilities?		
Are all individuals aware of their responsibilities for preparing each section/note of the accounts?		
Has a realistic project plan been developed, setting out detailed timelines for completion of tasks, who will complete these and contingency for unforeseen issues?		
Has the authority identified the potential blockages and barriers in the		

delivery of its plans and identified actions to address these?		
Is this project plan supported by clear financial procedures and closedown instructions to ensure clear communications to officers of requirements?		
Has the authority identified opportunities to rotate or upskill a wider group of individuals within the organisation to provide resilience for unforeseen loss of key staff and develop skills across the finance team?		
Has the authority established a committee or group to routinely monitor the progress against plans and ensure these stay on track?		
Systems and processes		
Has the authority reviewed the outcomes of the previous year's accounts preparation processes and identified where changes or improvements can be made?		
Has the authority reviewed all manual procedures and financial processes and considered where there is scope to automate and/or standardise these across the organisation?		
Has the authority reviewed its financial procedures and tasks to identify scope for streamlining, modification and improvement?		
Have all routine financial tasks been performed on a timely basis throughout the year to avoid additional procedures required at year end?		
Has the authority reviewed its monthly management reporting processes to identify opportunities to align these more closely to the year-end processes?		

Good practice checklist

Has the authority undertaken an in year interim hard close of its accounts to identify any possible issues early?		
Is the authority up to date on expected accounting changes in the financial reporting framework and considering the impact of these as early as possible?		
Has the authority reviewed its accounting policies to reflect any changes and ensure that these are tailored and appropriate for its circumstances? Have these policies been shared and discussed with the audit committee?		
Has the timetable and procedures built in sufficient time for quality assurance checks of the accounts and supporting working papers?		
Has the authority identified those areas where significant judgements and use of estimates are required and identified the basis on which these will be prepared and the data needed to support them?		
Managing relationships with others		
Has the authority identified those areas where information is required from other parties and ensured that this is incorporated into the project plan? • Valuers • Actuaries • Legal specialists • Specialist accounting advice eg PFI		
Has the authority conducted an assessment of its likely group relationships and other external entities and agreed with its subsidiaries/associates/joint arrangements when group consolidation information or disclosures will be provided?		

Good practice checklist

Has the authority spoken to its suppliers and contractors to ensure that arrangements for year-end processing and payment of invoicing is managed effectively?		
Has the authority discussed information requirements and timetables with other partner public bodies relating to any shared services and partnership working arrangements?		
Working effectively with auditors		
Has the authority shared its closedown project plans with its auditors and agreed key dates and milestones?		
Has the authority discussed and agreed respective responsibilities and set clear expectations on the accounts preparation and audit processes?		
Does the authority communicate with its auditors on a regular basis to discuss emerging accounting issues and progress against plans?		
Has the authority conducted a thorough review of its accounts and identified and discussed with its auditors those areas where there is scope to declutter and remove unnecessary notes and disclosures?		
Has the authority discussed and agreed its working paper requirements to support the completion of the audit?		
Has the authority and auditor shared their staff availability and holiday commitments so that these can be reflected in the work timetables?		
Has the authority discussed with its auditor where audit procedures can be		

Good practice checklist

commenced early and financial records that can be tested at the interim audit?		
Has the authority provided an early copy of the skeleton accounts and disclosures to allow opportunity for review of updated disclosures and prior year information in advance of the year end?		
Has the authority met with its auditor to reflect on the previous year's audit process and identify areas that can be changed or improved?		

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 ANNUAL AUDIT LETTER

The purpose of the report is to inform Members of the receipt of the Annual Audit Letter for the year ended 31 March 2016.

1.1 Introduction

1.1.1 As in previous years the Annual Audit Letter summarises the main outcomes from the work carried out by our external auditors and in this case for the year ended 31 March 2016. As such it repeats the headline messages in the Audit Findings Report reported to this Committee in September.

1.1.2 The Letter is the prime means through which the results of audit and performance assessment work are communicated to Members, the public and other stakeholders. A copy of the Annual Audit Letter for the year 2015/16 is attached at **[Annex 1]**.

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

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

1) The Council's accounts were prepared to a high standard.

2) The Council continues to have a robust financial planning framework.

3) The Council continues to address the significant financial pressures faced in a structured way, with the introduction of a comprehensive Savings and Transformation Strategy and planned "tranches" of savings to allow time for effective project planning and implementation.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

1.3.1 As set out in the Annual Audit Letter for the year ended 31 March 2016.

1.4 Risk Assessment

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

Background papers: contact: Neil Lawley

Nil

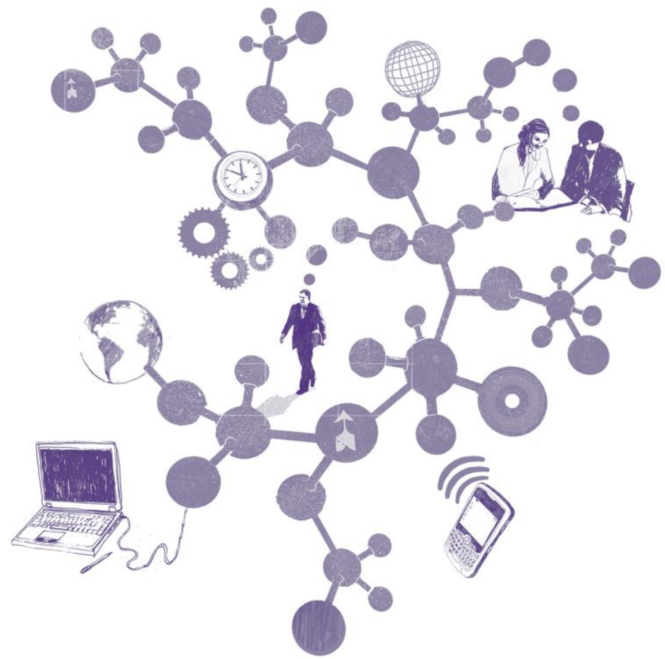
Sharon Shelton
Director of Finance and Transformation

Grant Thornton

The Annual Audit Letter for Tonbridge & Malling Borough Council

Year ended 31 March 2016

October 2016



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Contents

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Tonbridge & Malling Borough Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 5 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

Certificate

We certified that we had completed the audit of the accounts of the Council in accordance with the requirements of the Code on 27 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on the 2015/16 claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our 2015/16 Certification Report.

Working with the Council/Authority

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,236,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £62,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and are adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is risk based and our assessment of risk was based on a thorough understanding of the Council's business. Overleaf we set out the key risks we identified, the work we performed in response to those risks and the results of our work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
Employee remuneration understated For all Councils employee remuneration is a significant element of total expenditure. We designed our work to address the risk that the amount included in the Council's accounts for expenditure on employee remuneration was understated.	As part of our audit work we; • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested payroll information for a sample of employees to supporting documentation • reviewed yearend reconciliations to ensure the information in the accounts was complete We did not identify any issues to report.
Operating expenses understated For all Councils operating expenditure is a significant element of total expenditure. We designed our work to address the risk that in the Council's accounts creditors had been understated or had not been recorded in the correct period.	As part of our audit work we; • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • tested creditor amounts to supporting documentation • tested 2016/17 payments to ensure that these had been posted to the correct accounting year We did not identify any issues to report.
Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts. The value of the pension fund net liability is estimated by specialist actuaries. We performed work to address the risk that the Council's pension fund assets and liabilities were incorrectly valued.	As part of our audit work we; • gained an understanding of processes and key controls • performed a "walkthrough" of the key controls to assess if these were designed effectively • reviewed the competence, expertise and objectivity of the actuary performing the pension fund valuation • reviewed the basis for the valuation and assessed the reasonableness of the actuarial assumptions made • reviewed the consistency of disclosures in the financial statements with the actuarial report We did not identify any issues to report.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Audit Committee on 5 September 2016.

The Council's draft accounts were approved for issue ahead of the national deadline and were prepared to a high standard. We did not identify any adjustments which required an amendment to the primary financial statements. We agreed a small number of adjustments to disclosure notes.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were published with the draft accounts ahead of the national deadline. The documents were prepared in line with relevant guidance. They were also consistent with our knowledge and with the supporting evidence provided by the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf. Following our work we concluded that the risks identified were sufficiently mitigated and that the Council had proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

Overall VfM conclusion

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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
Financial planning The Council is facing further significant reductions in government funding in future years, and will need an effective financial planning framework to manage the impact of these changes.	We updated our understanding of the Council's medium term financial planning framework and it's planned approach to addressing future reductions in central government funding.	The Council has a well-established Medium Term Financial Strategy (MTFS) which covers a 10 year forecast period. The strategy is updated annually and aligned with the Council's annual budget-setting process. The Council continues to face significant financial pressures following reductions in central government funding and the implications of a major business ratepayer going into administration in February 2015. In the period under review a funding gap of £1,825,000 was identified over the lifetime of the MTFS. The Council continues to address this gap in a structured way, with the introduction of a comprehensive Savings and Transformation Strategy and planned "tranches" of savings over the lifetime of the MTFS to allow time for effective project planning and implementation. The Council achieved its planned savings target of £200,000 for inclusion in 2016/17 base budgets and has a clear and credible framework for delivering the savings of £625,000 in 2017/18 base budgets anticipated under the MTFS. We concluded that although the Council faces significant pressures it continues to have a robust financial planning framework. There is a clear understanding of the financial risks facing the Council and of the implications of current decisions over the medium term. On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Working with the Council

Our work with you in 2015/16

We are pleased to have worked with the Council in a positive and constructive relationship over the past year.

In 2015/16 we continued to share our insights through attendance at Audit Committees, in our Audit Committee update reports and in regular meetings with officers. We also shared our national thought leadership reports on a number of topics, including;

- Transforming the financial reporting of local authority accounts
- Better together: Building a successful Joint Venture Company
- Reforging local government: Summary findings of financial health checks and governance reviews; and
- Knowing the Ropes – Audit Committee Effectiveness Review.

We continue to run local workshops each year to update Councils on key issues ahead of preparing the annual accounts. During 2015/16 we also provided responses to a number of technical queries from officers and continued to work with you to help streamline the processes for preparing and auditing the Council's accounts.

We look forward to working with you again in 2016/17.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Council	45,776	45,776	61,035
Housing Benefit Grant Certification (indicative)*	18,084	TBC	18,600
Total fees (excluding VAT)	**63,860**	**TBC**	**79,635**

*Our work on the Council's 2015/16 housing benefit claim is in progress.

Fees for other services

Service	Fees £
Audit related services	None
Non-audit services	None

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016
Certification Report	January 2017 (planned)

Grant Thornton

grant-thornton.co.uk

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

23 January 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON – AUDIT COMMITTEE UPDATE

This paper is a progress report and update from Grant Thornton, our external auditors.

1.1 Committee Update

1.1.1 Attached at **[Annex 1]** is a progress report and update from Grant Thornton covering information on a number of areas including the following:

- Progress update and results of interim audit work
- Faster Closure of Accounts
- Integrated Reporting
- Brexit
- Local Government Accounting and other issues.

1.2 Legal Implications

1.2.1 As set out in the paper.

1.3 Financial and Value for Money Considerations

1.3.1 As set out in the paper.

1.4 Risk Assessment

As set out in the paper.

Background papers: contact: Neil Lawley
Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

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Audit Committee
Tonbridge & Malling Borough Council
Progress Report and Update
Year ended 31 March 2017

January 2017

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

Introduction

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

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

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

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

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Planned work

2016/17 work	Planned Date	Comments
Interim accounts audit Our interim audit work will include: • work to understand the control environment and the framework of controls for financial systems • walkthrough testing to confirm whether controls are implemented in accordance with our understanding in areas where we have identified a possible risk of material misstatement • early substantive testing in areas such as payroll and payments.	December 2016 – March 2017	
Accounts Audit Plan Under auditing standards we issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	
Final accounts audit Work to complete our audit of the 2016-17 financial statements. We will also continue to liaise regularly with the finance team throughout the year, including on emerging accounting and auditing issues.	July 2017	

Progress at March 2016

2016/17 work	Planned Date	Comments
Value for Money (VfM) conclusion		
We are required by section 21 of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VFM) conclusion. In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. Under AGN03 auditors are now required to reach their statutory conclusion based on the following overall evaluation criterion: *"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".* AGN03 provides examples of proper arrangements using three sub-criteria; • informed decision making • sustainable resource deployment • working with partners and other third parties. These sub-criteria are intended to guide auditors in reaching their overall conclusion, but they not separate criteria for assessment purposes and auditors are not required to reach judgements on each of them.	February - July	We will carry out an initial risk assessment to determine our approach and report this in our Audit Plan. We will report the outcomes from our Value for Money conclusion work in our Audit Findings Report.

Page 227

Grant Thornton Publications

Advancing closure: the benefits to local authorities

Grant Thornton reports

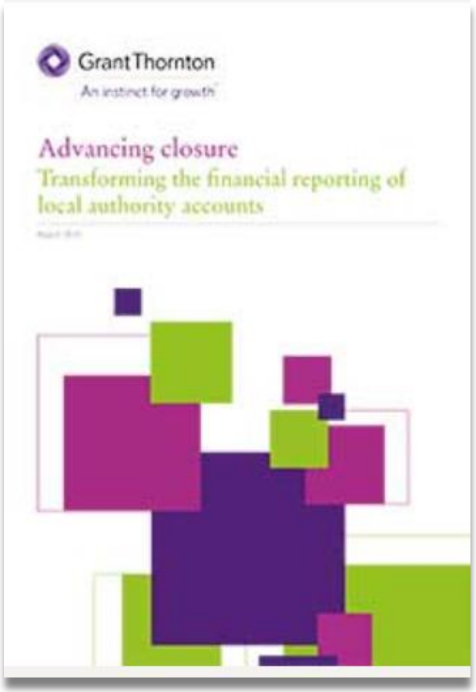
With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015 regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18 authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts. Our report explores these in further detail, concludes with a check list of suggested actions and provides insights from case study authorities who tell their stories of how they have achieved success.



http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/

Integrated Reporting

Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

Page 230

In the UK CIPFA proposed in a consultation document that from 2017/18 the narrative report reflects elements of the International Integrated Reporting Council's framework, whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

Integrated reporting: Looking beyond the report was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as *"enhancing the way organisations think, plan and report the story of their business."*

At Grant Thornton we fully agree with this and in our view the key word is 'enhancing', because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

However, anyone focussing simply on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our teams can help support you with the Integrated Reporting process. Please speak to your Engagement Lead if you would like to discuss this further.

Grant Thornton publications

Integrated Thinking and Reporting

CIPFA Publications

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

Page 231

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

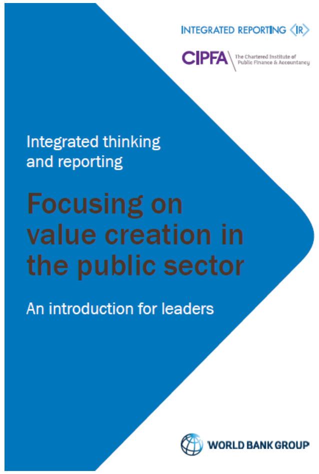
- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.



Brexit

Grant Thornton update

Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

Planning can help organisations reduce the impact of Brexit

Page 232

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

Existing EU legislation will remain in force

We expect that the Government will introduce a "Repeal Act" (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'.

Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK.

Grant Thornton update

appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

This is of course, all subject to change, and politics can move quickly.

Where does this leave the public sector?

After a relatively stable summer we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

Staffing – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

Financial viability – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

Market volatility – for example pension fund and charitable funds investments and future treasury management considerations.

International collaboration – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

For regular updates on Brexit, please see our website:

http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/

Local Government Accounting and other issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

This is the seventh edition of the Code to be prepared under International Financial Reporting Standards (IFRS), which have been adopted as the basis for public sector accounting in the UK. The 2016/17 Code has been developed by CIPFA/LASAAC and has effect for financial years commencing on or after 1 April 2016.

Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper (accounting) practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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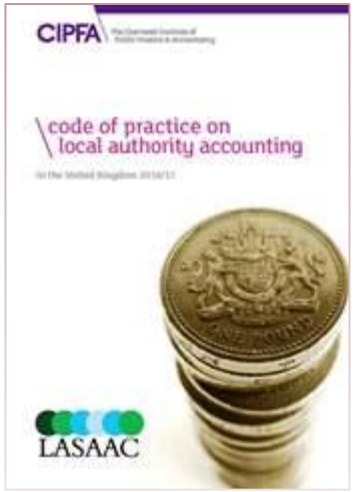

The Code includes changes resulting from the 'Telling the Story' review on improving the presentation of local authority financial statements. These include new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis.

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Amendments arising from the narrow scope amendments to International Financial Reporting Standards including changes from the following amended standards:

IAS 1 Presentation of Financial Statements under the International Accounting Standards Board Disclosure Initiative

IAS 24 Related Party Disclosures in relation to key management personnel as a result of the Annual Improvements to IFRSs 2010 – 2012

IFRS 11 Joint Arrangements Accounting for Acquisitions of interest in Joint Operations

IFRS 8 Operating Segments as a result of the Annual Improvements to IFRSs 2010 – 2012.

An update to the Statements Reporting Reviews of Internal Controls Section of the Code for the changes to the Delivering Good Governance in Local Government: Framework (2016) published by CIPFA and SOLACE.

Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

The full report is available at:

https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities marginally increased from 2010-11 to 2014-15 (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. Almost half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure, where capital spending fell by 22 per cent overall.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern. However, the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC (International Integrated Reporting Council) speak at our most recent meeting. Integrated Reporting, <IR>, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector <IR> has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets.

<IR> is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, <IR> encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

- <IR> encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- <IR> is underpinned by the International <IR> Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- <IR> is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt <IR>, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

Integrated Reporting

Further information is available on the IIRC's website

Fighting Fraud and Corruption Locally

CIPFA publication

Fighting Fraud and Corruption Locally is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

grantthornton.co.uk

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

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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.

ANY REPORTS APPEARING AFTER THIS PAGE CONTAIN EXEMPT INFORMATION

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

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