

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

24 March 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, 3rd April, 2017 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

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MEMBERSHIP

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

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

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

Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 23rd January, 2017

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

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

Councillors O C Baldock, M A Coffin, D Markham, M R Rhodes and H S Rogers 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, Mrs F A Kemp and B W Walker

PART 1 - PUBLIC

AU 17/1 DECLARATIONS OF INTEREST

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

AU 17/2 MINUTES

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

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 17/3 APPOINTMENT OF EXTERNAL AUDITORS

The report of the Director of Finance and Transformation referred to the decision of the Committee at Minute AU 16/18 to identify the opt-in to a sector led body as the preferred option for the appointment of external auditors when the transitional arrangements came to an end on 31 March 2018. Members were advised that the formal invitation to opt-in to the appointing person arrangements made by Public Sector Audit Appointments Limited (PSAA) was received on 27 October 2016 with a closing date of 9 March 2017. A copy of the PSAA prospectus and FAQs were annexed to the report.

RECOMMENDED: That the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments for the appointment of external auditors.

AU 17/4 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2017/18

The report of the Director of Finance and Transformation provided details of investments undertaken and returns achieved in the first nine months of the current financial year together with an introduction to the Treasury Management and Annual Investment Strategy for 2017/18.

It was noted that investment income at the end of December was £22,900 above budget for the same period and was largely attributable to higher than expected cash flow and core balances at the start of the financial year and the opportunity this presented to place more investment in higher yielding term deposits. The pattern of income generation had changed significantly following the August Bank Rate cut which resulted in lower returns going forward. Nevertheless it was expected that income for the year as a whole would still be in line with the original budget.

Reference was made to a review of investment duration and additional flexibility, subject to appropriate safeguards, was sought. The report explored the use of property funds for long term investment and recommended their inclusion in the 2017/18 Annual Investment Strategy. Members gave careful consideration to the use of property funds and asked questions on various aspects of their operation and their income and capital performance.

RECOMMENDED: That

- (1) the treasury management position as at 31 December 2016 be noted;
- (2) the use of property funds for long term investment be endorsed;
- (3) subject to the caveats identified in paragraph 1.3.14 of the report, the Council allow up to six months to be added to Capita's suggested duration for UK institutions, subject to overall duration not exceeding 12 months; and
- (4) the Annual Investment Strategy for 2017/18, as set out at Annex 4 to the report, be adopted.

AU 17/5 RISK MANAGEMENT STRATEGY

The joint report of the Chief Executive and Director of Finance and Transformation presented an updated Risk Management Strategy which had been fully reviewed together with the Risk Management Guidance. Details were given of the main changes to the risk management process which involved identified risks falling in the "red zone" being subject to

“escalation” to the relevant service management team, corporate Management Team and subsequently Members as appropriate.

An informal briefing on the revised process would be held for members of the Audit Committee before the April meeting when an updated Corporate Risk Register, aligned with the recently approved Corporate Strategy, would be presented.

RECOMMENDED: That

- (1) the proposed change to the risk management process detailed at paragraph 1.2.2 of the report be endorsed; and
- (2) the Risk Management Strategy set out at Annex 1 to the report be commended for adoption by the Council.

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

AU 17/6 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY

The report of the Director of Finance and Transformation gave details of the outcome of the annual review of the Council’s Anti-Fraud Policies and Whistleblowing Policy. It was noted that in each case no substantive changes were proposed. Members considered the policies presented in the annexes to the report and suggested that in the case of the Whistleblowing Policy, relevant contact details be included in section 8 for taking a matter further to organisations outside the Council.

RESOLVED: That

- (1) the Anti-Fraud Policies set out at Annexes 1, 2 and 3 to the report be approved; and
- (2) the Whistleblowing Policy set out at Annex 4 to the report, as amended with relevant contact details, be commended to the General Purposes Committee for endorsement.

AU 17/7 INTERNAL AUDIT CHARTER

The report of the Chief Audit Executive informed the Committee of the outcome of the review of the Internal Audit Charter and highlighted one minor amendment and that the document reflected the shared service arrangement with Kent County Council.

RESOLVED: That the Internal Audit Charter set out at Annex 1 to the report be noted and approved.

AU 17/8 ACCOUNTING POLICIES

Consideration was given to the report of the Director of Finance and Transformation which presented the Accounting Policies proposed for the 2016/17 Financial Statements. The report highlighted a proposed change to clarify the basis on which revenue was recognised in the financial statements as recommended by the external auditors following the audit of the 2015/16 Accounts.

RESOLVED: That the Accounting Policies set out at Annex 1 to the report be endorsed for use in the preparation of the 2016/17 Financial Statements.

AU 17/9 PROPOSED WORK PROGRAMME AND SCALES OF FEES 2017/18

The report of the Director of Finance and Transformation introduced the Work Programme and Scales of Fees for 2017/18 proposed by Public Sector Appointments Limited (PSAA) in respect of work undertaken by the Council's external auditors. It was noted that PSAA did not plan to make any changes to the overall work programme and proposed that the 2017/18 scale audit fees be set at the same level as those applicable in 2016/17. The indicative fee for certification work would be based on the final 2015/16 fee.

RESOLVED: That the 2017/18 Proposed Work Programme and Scales of Fees be noted and endorsed.

AU 17/10 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

The report of the Chief Audit Executive gave an update on the work of the Internal Audit and Counter Fraud functions for the period April to December 2016. The Committee was advised of progress against the 2016/17 Internal Audit and Counter Fraud Plan. Concern was expressed about progress of the work of the Empty Homes Working Group identified in the audit of Empty Properties and a report back requested.

RESOLVED: That the report be received and noted subject to an update to the Communities and Housing Advisory Board by the lead service on Empty Properties as appropriate and a report on the outcome to the Audit Committee.

MATTERS SUBMITTED FOR INFORMATION**AU 17/11 LOCAL CODE OF CORPORATE GOVERNANCE**

The joint report of the Chief Executive and Director of Central Services provided an update on the changes required to the Local Code of Corporate Governance in accordance with the "Delivering Good Governance in Local Government Framework 2016". An internal

analysis had highlighted a number of areas where the current Code did not meet the requirements of the 2016 Framework, some of which related to the Council's Constitution which was proposed for review by the Overview and Scrutiny Committee. It was anticipated that a draft revised Local Code would be presented to the Audit Committee in April 2017.

RESOLVED: That the report be received and noted.

AU 17/12 GRANT THORNTON PAPER - ADVANCING CLOSURE

The report of the Director of Finance and Transformation referred to Regulations bringing forward the dates for local authority accounts to be ready for audit and the publication of audited accounts to 31 May and 31 July respectively with effect from the 2017/18 financial year. Details were given of a paper prepared by Grant Thornton to assist local authorities in improving their accounts closure procedures to comply with the new deadlines together with a good practice checklist. The report set out the implications of the earlier closure and publication for officers, auditors and the Audit Committee.

RESOLVED: That the report be received and noted.

AU 17/13 ANNUAL AUDIT LETTER

The report of the Director of Finance and Transformation advised the Committee of the receipt of the Annual Audit Letter summarising the main outcomes from the work carried out by the external auditors for the year ended 31 March 2016. The letter repeated the headline messages in the Audit Findings Report presented to the Committee in September 2016. These were that the Council's accounts were produced to a high standard, there continued to be a robust financial planning framework with a structured approach to addressing financial pressures and delivering planned savings.

Members welcomed the letter and congratulated all staff involved.

RESOLVED: That the report be received and noted.

AU 17/14 GRANT THORNTON - AUDIT COMMITTEE UPDATE

The report of the Director of Finance and Transformation introduced Grant Thornton's report on progress in delivering their responsibilities as the Council's external auditors and summarising a number of relevant national issues and developments.

Ms Ironmonger advised that this was Trevor Greenlee's last meeting as the Council's Audit Manager as he was moving to another authority in accordance with ethical standards. Mr Greenlee thanked members of the Committee and the Finance team for the positive relationship with

the Council. The Chairman expressed appreciation of Mr Greenlee's contribution over the years of her chairmanship and wished him well for the future.

RESOLVED: That the report be received and noted.

AU 17/15 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.34 pm

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Chair of the Audit Committee

Part 1- Public

Matters for Recommendation to Council

1 AUDIT COMMITTEE ANNUAL REPORT

This report is produced to inform Council on how the Audit Committee has provided those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. It is recommended that the Audit Committee agree that this report is presented to Council to support this assurance.

1.1 Introduction

- 1.1.1 The Accounts & Audit (England) Regulations impose a responsibility on a local authority “for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”
- 1.1.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out the role of Audit Committees in their Practical Guidance for Local Authorities 2013. This states that “*the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.*”
- 1.1.3 The Audit Committee comprises nine Members. The Committee has four meetings each year at which reports submitted by Officers and the External Auditors are considered. By consideration of these reports and matters raised within them it is considered that the Audit Committee fulfils the core functions of an Audit Committee as set out in the CIPFA Guidance and is able to give independent assurance to the Council to meet the requirements of the Accounts & Audit Regulations.
- 1.1.4 The core functions of the Audit Committee are dealt with in the following paragraphs.

1.2 Assurance Statements

- 1.2.1 The Audit Committee is required to consider and approve the contents of the Annual Governance Statement (AGS), which took place in June 2016.
- 1.2.2 The council is revising the Local Code of Corporate Governance to set out how the council will comply with the principles of the new CIPFA/SOLACE (Society of Local Authority Chief Executives) “Framework for Delivering Good Governance in Local Government”. An interim report was presented to the Committee in January and the revised Local Code of Corporate will be presented to a future meeting of the Audit Committee for endorsement and used as the basis for the AGS.
- 1.2.3 The AGS explains how the council complies with the Local Code of Corporate Governance and the Accounts & Audit Regulations.
- 1.2.4 Part of the AGS gives updates on emerging issues and identifies impacts in the future of these issues as well as setting out action taken to enhance the overall corporate governance framework.
- 1.2.5 The AGS is supported by signed Assurance Statements provided by members of the core Management Team and the three statutory officers and is prepared by way of a self-assessment questionnaire and supporting evidence. No significant concerns were raised as a result of this exercise.
- 1.2.6 At the April 2016 Audit Committee meeting there was confirmation from both Management Team and Audit Committee that the council had complied with International Standards on Auditing.

1.3 Internal Audit Function

- 1.3.1 The Audit Committee has a role in relation to the council’s Internal Audit function to: -
- Oversee its independence, objectivity, performance and professionalism.
 - Support the effectiveness of the internal audit process.
 - Promote the effective use of internal audit within the assurance framework.
- 1.3.2 The Audit Committee received a number of reports to oversee the role of the Internal Audit function.
- 1.3.3 The Annual Internal Audit Plan for 2016/17 was presented to the Audit Committee in April 2016 and they were able to consider the content prior to recommending approval.
- 1.3.4 In June 2016 the Audit Committee was presented with a report from the Chief Audit Executive as a summary of supporting evidence to the AGS. This report

gave the Chief Audit Executive's opinion that the council had maintained an adequate and effective internal control environment.

- 1.3.5 The Audit Committee is required to consider the effectiveness of Internal Audit on an annual basis. This review was based upon evidence produced and the view of Management Team. A report was submitted to the Audit Committee in June 2016 which reported that Management Team opinion on the effectiveness of Internal Audit was "Good". Members considered the findings of this review and endorsed the opinion that the effectiveness of Internal Audit was "Good".
- 1.3.6 In June 2016 an independent External Assessment was undertaken by the Chartered Institute of Internal Auditors to provide an opinion on Internal Audit's conformance with the Public Sector Internal Audit Standards. The overall assessment was that 'the internal audit function "generally conforms to the IIA's professional standards"' (the highest rating given) although, of a total of 56 Standards, 8 were found to be partially conforming with recommendations made accordingly. The Committee received an update on the findings to the September meeting and an action plan was developed to address the recommendations relating to the 8 partial Standards. Members will receive regular updates on actions to address the recommendations made commencing April 2017.
- 1.3.7 The Audit Committee was given a report in June 2016 on the work completed by Internal Audit in the previous year that detailed how resources had been used. The report also covered a number of performance measures to assist the Audit Committee to assess the performance and effectiveness of the function.
- 1.3.8 The Internal Audit Charter is a key document in the delivery of Internal Audit setting out the purpose, authority and responsibilities of the service which was subject to review at the January 2017 meeting of the Audit Committee.
- 1.3.9 The Internal Audit Charter gives the Audit and Assurance Manager (as Chief Audit Executive) the right to raise issues directly with the Chair of the Audit Committee if considered necessary. This would only occur in circumstances where the Audit and Assurance Manager considered that the Chair of the Audit Committee needed to be made aware of significant assurance concerns. There have not been any instances where this has been considered necessary.
- 1.3.10 Throughout the year the Audit Committee received a number of reports updating Members of the progress of work carried out by Internal Audit against the Audit Plan. These reports informed the Audit Committee of internal audit's opinion on the audits undertaken and gave additional information where a red opinion (evidence of significant non-compliance) was given.

1.4 Audit Committee Responsibilities

- 1.4.1 The responsibilities of the Audit Committee are set out in the Constitution of the Council.

1.4.2 The Council meeting of 17 February 2015 agreed to a number of Constitutional changes to reflect the alignment of the Audit Committee to new CIPFA guidance on the role of the Audit Committee. This led to the Audit Committee having areas of delegated responsibility transferred to them and this report summarises how these have been effectively discharged in 2016/17.

1.5 Risk Management Arrangements and Control Environment

1.5.1 The Audit Committee is required to consider the effectiveness of the council's risk management arrangements and the control environment. The Members are required to review the risk profile for the council and seek assurances that action is being taken on risk-related issues, including partnerships with other organisations.

1.5.2 The risk profile for the council is undertaken as part of the audit needs assessment to identify those areas where Internal Audit is most effective.

1.5.3 The Risk Management Strategy is the framework for setting out the responsibilities for ensuring that a sound risk management process is in place. The strategy is reviewed by the Audit Committee on an annual basis and this review took place in June 2016 and again in January 2017.

1.5.4 The Risk Management Strategy requires managers to carry out a review of their operational registers and this process did not result in any material concerns that required reporting to Members.

1.5.5 The strategy states that Audit Committee Members will receive risk management training during their term of office. This training is planned for April 2017.

1.5.6 The Insurance Officer maintains a record of all claims made against the council which are reported to the Audit Committee on a regular basis. These reports also inform Members of the steps being taken to minimise similar claims being made.

1.5.7 All reports to Council require a risk assessment of the issues involved to be reported as part of the consideration of the report.

1.6 Assurance Framework and Planning

1.6.1 The assurance framework is the overall process that provides evidence to support the AGS. The Audit Committee has a responsibility to understand what assurance is available to support the AGS.

1.6.2 The AGS was presented to Members at the meeting of June 2016. The supporting evidence to the AGS consisted of a document setting out the areas of the assurance framework to be considered with an explanation of evidence that supported the conclusions of the AGS.

1.7 Value for Money and Best Value

- 1.7.1 One specific area for the Audit Committee should be consideration of the external auditor opinion on value for money as set out in the codes of audit practice. In addition, the Audit Committee should consider what other assurances are available in relation to identified value for money risks and highlight areas for improvement. (CIPFA Audit Committee Guidance).
- 1.7.2 The External Auditors, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2016 which was presented to the Audit Committee at their meeting of January 2017.
- 1.7.3 The report concluded that the external auditor was 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 ended 31 March 2016.
- 1.7.4 As part of the embedded system for achieving value for money all Council reports contain a section where value for money is considered.

1.8 Countering Fraud and Corruption

- 1.8.1 The Audit Committee role is defined as having an oversight of the strategy to counter fraud and to assess whether or not it meets recommended practice and standards.
- 1.8.2 The Audit Committee is responsible for the review of the policies relating to countering fraud and corruption. In January 2017 it reviewed the Whistleblowing Policy and recommended that it was endorsed by the General Purposes Committee. In the same meeting the anti-fraud policies were reviewed and, subject to any amendments, subsequently approved.
- 1.8.3 The Audit Committee also receives updates on the progress of the National Fraud Initiative results and other work undertaken by the Fraud Team with the Internal Audit updates. The Whistleblowing Policy requires the Audit Committee to be informed of the outcome of any investigations arising from concerns raised under it. No such matters have been drawn to the attention of the Committee in the period covered by the report.

1.9 External Audit

- 1.9.1 The Audit Committee should receive all reports from external auditors and monitor action to be taken that arises from them.
- 1.9.2 The Audit Committee has received copies of all external auditor reports during the year and has been able to consider the content. The external auditors provide a representative to all Audit Committee meetings where the Audit Committee is able to raise questions regarding the content of reports.

1.10 Financial Reporting

1.10.1 Local Authority accounts are produced in line with guidance set out by CIPFA. The role of the Audit Committee with regard to these financial statements is not one of detailed knowledge of this guidance but is more aligned to focus on financial reporting and financial governance rather than on the wider issues of spending and performance.

1.10.2 The CIPFA Guidance identifies areas that the Audit Committee should be concerned with as follows: -

- reviewing the explanatory foreword to ensure consistency with the statements and the financial challenges and risks facing the council in the future
- reviewing whether the foreword is readable and understandable by a lay person
- identifying the key messages from each of the financial statements and evaluating what that means for the council in future years
- monitoring trends and reviewing for consistency with what is known about financial performance over the course of the year
- reviewing the suitability of accounting policies and treatments
- seeking explanations for changes in accounting policies and treatments
- reviewing major judgemental areas, e.g. provisions
- seeking assurances that preparations are in place to facilitate the external audit.

1.10.3 The Audit Committee received the Statement of Accounts at the meeting of June 2016. This report gave the Audit Committee assurance that the accounts were presented in compliance with required legislation and best practice guidance. Following consideration of the accounts and a detailed report giving evidence of how compliance is achieved the Audit Committee agreed to endorse the Statement of Accounts and supporting documents.

1.11 Partnership Governance

1.11.1 The latest CIPFA Guidance identifies that the Audit Committee should review assurances over partnerships to ensure that arrangements are satisfactorily established and are operating effectively.

1.11.2 The arrangements for significant partnerships are covered as part of the audit planning process and covered within individual audits as appropriate. In 2016/17

and audit of Partnership arrangements was undertaken with the outcomes and audit opinion reported to the Committee in January 2017.

1.12 Treasury Management

1.12.1 Although it is not included as a core objective of the Audit Committee, the CIPFA Guidance recognises that Treasury Management scrutiny may be a function of some Audit Committees to meet the requirements of the CIPFA Treasury Management Code of Practice.

1.12.2 The Committee receive regular updates on Treasury Management including the treasury management mid-year review and annual report. At the meeting of January 2017 Members of the Audit Committee reviewed the Treasury Management Strategy Statement and Investment Strategy for 2017/18 and recommended it be adopted by Cabinet and full Council.

1.13 Training

1.13.1 The Chair and Members of the Audit Committee receive in-house and or external training at varying intervals to assist with the understanding of the issues considered.

1.13.2 Training needs identified, include Treasury Management and Risk Management and are being arranged to commence with Risk Management training in April 2017.

1.14 Conclusion

1.14.1 The evidence in the preceding paragraphs explains how the Audit Committee has overseen the core functions of an Audit Committee as defined in the CIPFA Guidance.

1.14.2 As stated at 1.1.2 the CIPFA Guidance identifies that the purpose of the Audit Committee 'is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.' This report acts to provide that independent assurance to Council.

1.15 Legal Implications

1.15.1 The Audit Committee role is based upon the CIPFA Guidance and meets the requirements of the Accounts & Audit Regulations.

1.16 Financial and Value for Money Considerations

1.16.1 The Audit Committee has a role considering the external opinion on value for money. This has been undertaken as outlined in section 1.7 of this report.

1.17 Risk Assessment

1.17.1 The Audit Committee consideration of risk assessment is covered in section 1.5 of this report.

1.18 Equality Impact Assessment

1.18.1 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.

1.19 Recommendations

1.19.1 That Members of the Audit Committee consider this report and recommend that it is presented to Council to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

Background papers:

contact: Vivian Branson

Nil

Councillor Vivian Branson
Chair of Audit Committee

Agenda Item 5

Local Code of Corporate Governance report to follow

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 TREASURY MANAGEMENT UPDATE

This report provides an update on treasury management activity undertaken during the 2016/17 financial year within the context of the national economy and invites Members to endorse the action taken by officers and note the treasury position at the end of February 2017.

1.1 Introduction

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

1.2 Economic Background

1.2.1 Despite the recent improvements in public finance data and healthier near term economic outlook the Chancellor's spring budget introduced no major changes in government policy. The main focus areas for support were the NHS and social care, education and additional funds earmarked for businesses to assist with planned changes in business rates.

1.2.2 The budget was supported by updated economic growth and inflation forecasts by the Office for Budget Responsibility (OBR). The GDP forecast for 2016/17 was confirmed at 2.0%, increased to 1.8% for 2017/18 (1.3% last autumn) but reduced in subsequent years (now 1.6% in 2018/19 rising back to 2.0% in 2021/22). The Consumer Price Index forecast was confirmed at 1.0% for 2016/17, rising to 2.6% in 2017/18 and falling back to 2.0% in 2019/20.

1.2.3 In the February Inflation Report, the Bank of England moved to a 'neutral' policy position, stating that central bank policy can respond in 'either direction' to changes in the economic outlook, removing its previous view that a rate cut was likely. At the Bank's March meeting, the minutes noted 'it would take relatively

little further upside news on the prospects for activity or inflation for them to consider that a more immediate reduction in policy support might be warranted'. The March meeting also saw one of its nine members vote for an immediate increase in Bank Rate.

1.2.4 In America the Federal Reserve raised the Fed Rate (equivalent of our Bank Rate) by 0.25% to 0.75% in December 2016. The rise, the second since 2006, was accompanied by an expectation that further rises would follow in 2017. The March meeting saw the Fed Rate increase by a further 0.25% to 1.00%.

1.2.5 Eurozone growth remained steady in quarter four of 2016 at 0.4% (1.7% year-on-year).

1.3 Interest Rate Forecast

1.3.1 The Bank Rate, having remained at an emergency level of 0.5% for over seven years, was reduced to 0.25% in August 2016. Capita's current forecast (November 2016) anticipates the Bank Rate remaining at 0.25% until June 2019.

Rate	Now	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
3 mth LIBID	0.23	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70
6 mth LIBID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80
12 mth LIBID	0.62	0.70	0.70	0.70	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20
25yr PWLB	2.90	2.90	2.90	2.90	3.00	3.00	3.00	3.10	3.10	3.20	3.20	3.30

1.4 Investment Performance

1.4.1 In accordance with the CIPFA Code the Council's priorities, in order of importance, are: to ensure security of capital; liquidity; and having satisfied both, to obtain an appropriate level of return which is consistent with the Council's risk appetite.

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

1.4.3 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 precept 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 £16.4m.

1.4.4 The Authority also has £24m 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.

- 1.4.5 A full list of investments held on 28 February 2017 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 on 28 Feb 2017 £m	Average duration to maturity Days	Weighted average rate of return %	Interest earned to 28 Feb 2017 £	Gross annualised return %	LIBID benchmark %
Cash flow	13.2	1	0.43	88,850	0.59	0.22 (7 day)
Core funds	24.0	96	0.64	128,300	0.71	0.33 (3 mth)
Total	37.2	62	0.57	217,150	0.66	0.28 (average)

- 1.4.6 Interest earned of £217,150 is £28,500 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 38 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.
- 1.4.7 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). This action together with a more flexible use of cash flow and core cash balances (surplus cash flow has been transferred to core cash and cash flow balances replenished with core fund maturities) has helped negated the impact of the August Bank Rate cut (from 0.5% down to 0.25%). Investment income for the year as a whole is now expected to exceed budget by some £25,000.

1.5 Benchmarking

- 1.5.1 The Council takes advantage of Capita's benchmarking service 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 31 December 2016, our return at 0.61% (purple diamond) was above the local authorities' average of 0.55% 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.

1.6 Long term Investment Update

- 1.6.1 The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered the most appropriate. The use of property funds for both existing cash balances and any new money derived from the sale of assets was subsequently approved by Council in February 2017.
- 1.6.2 There are numerous property funds available to choose from. Many have: a track record that precedes the 2008 financial crisis; a diverse **commercial** 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. Capita have been engaged to assist with the detailed analysis required to identify the most appropriate funds to suit the Council's needs. That assistance includes analysis of: fund investment strategies; performance; portfolio composition; liquidity risk and fund management fees. Capita's analysis and short list of suitable funds is expected to be available at the end of April. Interviews with fund managers will be held during May with a view to commencing investment at the end of June.
- 1.6.3 Of the Council's existing cash balances, £2m is available for long term investment and is expected to be applied to a property fund investment. Other resources (new money) made available from the sale of existing assets may also be invested in property funds as the disposals take place.

1.7 Borrowing

- 1.7.1 It is a statutory duty for the Council to determine and keep under review the 'Affordable Borrowing Limits' by way of the Prudential Indicators (affordability limits) set out in the approved Treasury Management Strategy Statement. In this regard it is confirmed that no borrowing was undertaken in the period April 2016 to February 2017.

1.8 Compliance with the Annual Investment Strategy

- 1.8.1 Throughout the period April 2016 to February 2017 the requirements set out in the 2016/17 Annual Investment Strategy which aim to limit the Council's exposure to investment risks (minimum counterparty credit criteria; sovereign, counter-party and group exposure limits; type of investment instrument; and investment duration limits) have been complied with.

1.9 Legal Implications

1.9.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. In addition, Capita are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.10 Financial and Value for Money Considerations

1.10.1 Investment income at the end of February 2017 (month eleven) is £28,500 better than budget for the same period. Income for the 2016/17 financial year as a whole is expected to exceed budget by some £25,000.

1.10.2 The Bank Rate having remained at a historic low of 0.5% for over seven 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.

1.10.3 The delay by the valuation office in determining business rate appeals has resulted in the Council's cash balances being higher than expected throughout 2016/17. The action outlined at paragraph 1.4.7 combined with higher cash balances has negated the impact the August Bank Rate cut would otherwise have had on investment income in 2016/17. However, relative to previous expectations, the lower bank rate will result in reduced investment income over the medium term. The enhanced income from a property fund investment will mitigate some of that impact.

1.10.4 Whilst the annual income stream from a property fund exhibits stability (circa 4.5% per annum net of management fees) 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.

1.10.5 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Capita's benchmarking service.

1.11 Risk Assessment

1.11.1 The application of best practice, including the regular reporting and scrutiny of treasury management activity, as identified by the CIPFA Code is considered to be an effective way of mitigating the risks associated with treasury management.

1.12 Equality Impact Assessment

1.12.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act.

1.13 Recommendations

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

- 1) endorse the action taken by officers in respect of treasury management activity for the period April 2016 to February 2017; and
- 2) note the treasury position at the end of February 2017.

Background papers:

contact: Mike Withey

Forecast and benchmarking data provided by Capita.

Sharon Shelton
Director of Finance and Transformation

Investment Summary 28 February 2017

Counterparty	Sovereign	Fitch Credit rating		Capita Suggested Post CDS Duration Limit	Investment					Instrument type	Core Fund £	Cash Flow £		
		Long Term	Short Term		Start Date	End Date	Duration	Amount Invested £	Return %				Proportion of total %	
Bank of Scotland	UK	A+	F1	6 months	21/10/2016	21/07/2017	9 months	2,000,000	0.80%	5.37%	Fixed deposit	2,000,000		
Bank of Scotland Total								2,000,000						
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		10.74%				
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	28/02/2017	01/03/2017	n/a	6,000,000	0.32%		Call - MMF	2,000,000	4,000,000	
BNP Paribas MMF Total								6,000,000		16.11%				
Deutsche MMF	n/a	AAA	mmf	5 years	28/02/2017	01/03/2017	n/a	4,000,000	0.29%		Call - MMF		4,000,000	
Deutsche MMF Total								4,000,000		10.74%				
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		16.11%				
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	UK	A+	F1	6 months	25/01/2017	21/10/2017	9 months	1,000,000	0.70%		Fixed deposit	1,000,000		
Lloyds Bank Total								2,000,000		5.37%				
NatWest Deposit Account	UK	BBB+	F2	1 year	28/02/2017	01/03/2017	n/a	244,000	0.01%		Call		244,000	
National Westminster Bank Total								244,000		0.66%				
Santander Deposit Account	UK	A	F1	6 months	28/02/2017	01/03/2017	n/a	6,000,000	0.55%		Call	3,000,000	3,000,000	
Santander UK Plc Total								6,000,000		16.11%				
Standard Chartered Bank	UK	A+	F1	6 months	27/10/2016	27/04/2017	6 months	2,000,000	0.64%		Fixed deposit	2,000,000		
Standard Chartered Bank	UK	A+	F1	6 months	16/02/2017	16/11/2017	9 months	2,000,000	0.76%		Fixed deposit	2,000,000		
Standard Chartered Bank Total								4,000,000		10.74%				
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	26/08/2016	26/05/2017	9 months	1,000,000	0.54%		CD	1,000,000		
Toronto Dominion Bank Total								3,000,000		8.05%				
Total invested								37,244,000		100.00%		24,000,000	13,244,000	

Number of investments	19	Average investment value £		1,960,000	
Number of counter parties	10	Average counter party investment £		3,724,000	
Group exposures:		Core £	Cash £	Combined £	%
RBS + National Westminster (UK Nationalised 25%)		-	244,000	244,000	0.66
Bank of Scotland + Lloyds (20%)		4,000,000	-	4,000,000	10.74

Total non-specified investments should be less than 60% of Core Funds	0.00%
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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 24/02/17

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	£2m	£4m	£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	£2m	£4m	£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	£2m	£4m	£6m	6 months	6 months
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, AAmmf 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	AAmmf	AAAm	£4m	£2m	£6m
Deutsche Fund	AAA-mf	AAmmf	AAAm	£4m	£2m	£6m
Standard Life (Ignis)	-	AAmmf	AAAm	£4m	£2m	£6m
Morgan Stanley	AAA-mf	AAmmf	AAAm	£4m	£2m	£6m
Prime Rate	-	AAmmf	AAAm	£4m	£2m	£6m
Insight Liquidity Group limit for IL and ILP of £6m	-	AAmmf	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

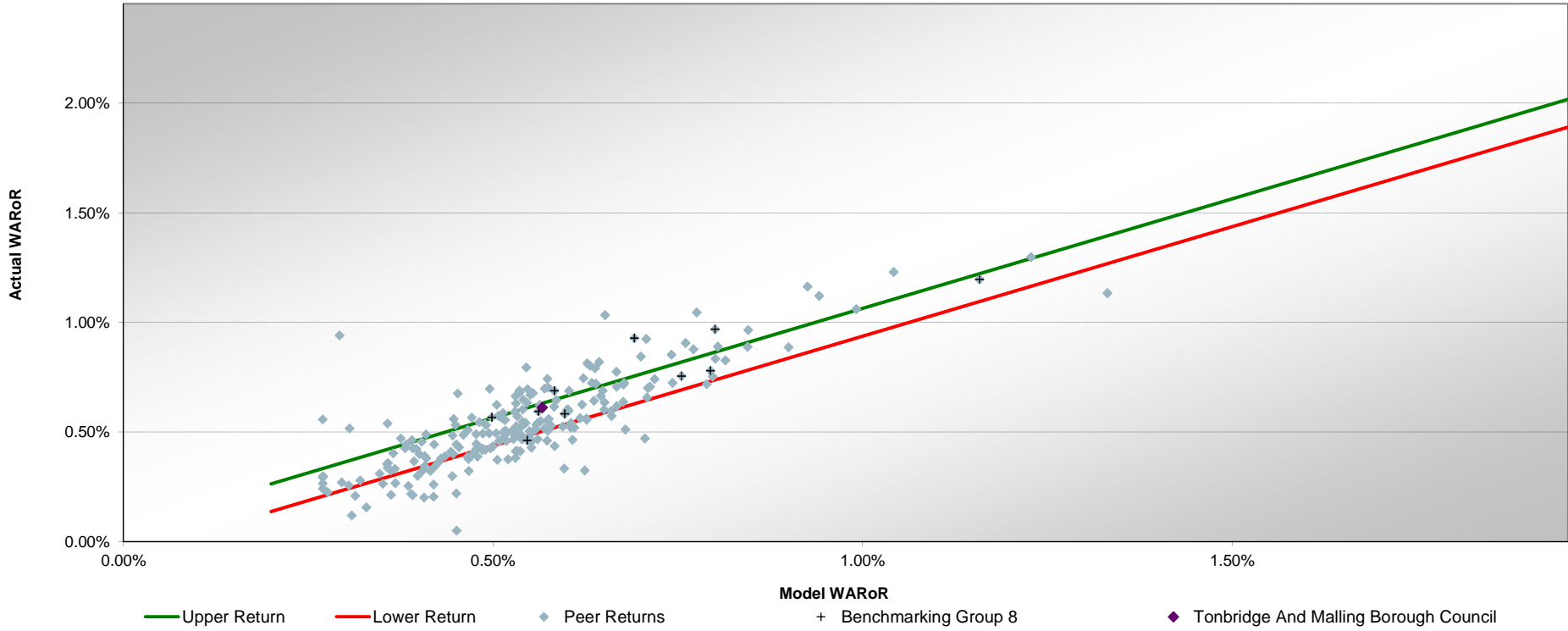
Approved by Director of Finance & Transformation
28th February 2017

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Tonbridge And Malling Borough Council

Population Returns against Model Returns



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	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge And Malling Borough Council	0.61%	0.57%	0.04%	0.50%	0.63%	Inline

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT AND FRAUD PLAN 2017/18

This report seeks Members approval of the Internal Audit and Fraud Plan for the year 2017/18.

1.1 Introduction

1.1.1 The professional standards for Internal Audit require the Chief Audit Executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. A risk-based Internal Audit Plan has been prepared for the 2017/18 financial year to fulfil this requirement.

1.1.2 The Internal Audit Plan includes the work plan of the Fraud Team. As a result the Plan is a combined Internal Audit and Fraud Plan.

1.2 Internal Audit and Fraud Plan 2017/18

1.2.1 A copy of the proposed Internal Audit and Fraud Plan for 2017/18 is attached at **[Annex 1]** of this report. This is intended to provide Members with a clear picture of how the Council will make use of its Internal Audit and Fraud Team, reflecting on all work to be undertaken by the Team during the financial year.

1.2.2 In accordance with the requirements of the Public Sector Internal Audit Standards and CIPFA's Local Government Application Note to the Standards information on the process for developing, resourcing and delivering the Plan is provided in the Plan itself rather than in the covering report.

1.2.3 The proposed Plan has been reviewed and endorsed by Management Team and will also be shared with Grant Thornton LLP, the Council's External Auditor.

1.3 Legal Implications

1.3.1 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.

- 1.3.2 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.
- 1.3.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

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.
- 1.4.2 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.

1.5 Risk Assessment

- 1.5.1 The Internal Audit and Fraud Plan is intended to ensure that the work of the Internal Audit and Fraud Team is effectively directed. For this very reason, the process for preparing the Plan is itself informed by an assessment of the risks and audit needs of the Council. Members' endorsement of the Internal Audit and Fraud Plan for the year 2017/18 ensures that the status of the Plan is maintained.

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 **approve** the Internal Audit and Fraud Plan for the year 2017/18.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland
Chief Audit Executive

Tonbridge & Malling Borough Council Internal Audit and Fraud Plan 2017-18

1. Introduction

- 1.1 Section 151 of the Local Government Act 1972 and Regulation Six of the Accounts and Audit Regulations (England) set out the requirement for Local Authorities to have an Internal Audit function. The [Public Sector Internal Audit Standards](#) define Internal Audit as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.
- 1.2 Tonbridge & Malling Borough Council's Internal Audit and Fraud function contribute to the effective and efficient delivery of the Council's objectives and is delivered and developed in accordance with the Council's Internal Audit Charter.
- 1.3 This Internal Audit and Fraud Plan (the Plan) is prepared in accordance with the Public Sector Internal Audit Standards (PSIAS), the Local Government Application Note and the CIPFA Code of Practice for Anti-Fraud and Corruption. The Plan aims to ensure that sufficient audit and fraud assurance work is carried out to enable the Chief Audit Executive to deliver an opinion regarding the adequacy and effectiveness of the internal control arrangements within the Council.

2. Audit and Fraud Risk Assessment

- 2.1 The 2017-18 Internal Audit and Fraud Plan has been based upon an annual risk assessment of the Council and its resultant Internal Audit and Counter Fraud needs. The risk assessment is undertaken to:
 - 2.1.1 Identify the Council's business objectives.
 - 2.1.2 Identify the business activities that aim to meet those objectives.
 - 2.1.3 Rank these systems in terms of risk, taking into account for example, risk to the council's reputation, financial materiality, risk of harm to staff, Members, contractors and service users and the risk of fraud and/or error. This enables prioritisation of areas for review.
- 2.2 The results of this process are used in conjunction with input from Senior Management on key service and strategic risks and knowledge of the wider control environment. The aim is to help ensure that Internal Audit and Fraud resources are directed effectively to the key risk areas where they can add the most value in helping to ensure the achievement of objectives, the improvement of internal control and the efficiency of service delivery.

3. Resourcing

- 3.1 The Internal Audit and Fraud functions of Tonbridge & Malling Borough Council and Kent County Council have operated a shared management arrangement since May 2015. The 2017-18 Internal Audit and Fraud Plan will be delivered using the resource based at Tonbridge & Malling Borough Council which consists of the Audit & Assurance Manager (0.5fte), two full-time Internal Auditors (one post is currently vacant) and two Fraud Officers (1.6fte) subject to any requirements for specialist skills (see 3.3 below). Additional days for 2017/18 are being sourced through use of a contractor pending any decision on recruitment to the vacant post.

- 3.2 The total audit and fraud resource available in 2017-18 is 632 days, which is considered sufficient to provide assurance over all high risk areas identified by the Audit Needs and Fraud Risk Assessments and to deliver the annual audit opinion. The audit planning process considers the skills and experience of the team when programming audits, and all work planned is considered to be within the capability of the team.
- 3.3 The Internal Auditor or Fraud Officer assigned to each audit/fraud review is selected by the Audit & Assurance Manager based on their knowledge, skills, experience, discipline and any declared conflicts of interest to ensure that the review is conducted effectively. If a review calls for specialist skills/experience beyond that within the team, arrangements would be put in place to secure specialist skills from KCC as part of the partnership arrangement or from an external contractor if that is not possible. The level and skills of audit resources available will remain under review throughout the year to ensure that they continue to be sufficient.
- 3.4 The Internal Audit and Fraud Plan contributes to the Council's overall assurance framework and as such, where possible, information will be shared and activities coordinated with other internal and external providers of assurance to the Council.

4. 2017-18 Internal Audit and Fraud Plan

- 4.1 The Plan is intended to provide a clear picture of how the Council will make use of its Audit and Fraud function, reflecting all work to be undertaken by the team during the financial year. The Plan includes assurance and consultancy work, proactive fraud work and time for investigations. For each area of planned work the Plan records the proposed high-level scope and the indicative number of days allocated.
- 4.2 The Internal Audit and Fraud Plan reflects the Council's focus on identifying financial savings and opportunities for generating efficiencies in services. The Plan also incorporates targeted proactive anti-fraud work intended to assist in ensuring that the Council has appropriate arrangements in place to prevent and detect fraud, and reduce its financial impact as far as possible. An example of this is the focus on Blue Badge Fraud included in the 2017/18 Plan. Use of a Blue Badge without entitlement is a specific offence and this is recognised nationally as an area for focus; in 2013 the National Fraud Authority estimate Blue Badge fraud costs the UK £46 million a year. Examples of the offence include use by someone other than the legitimate badge holder, a badge obtained through false representation (i.e. lying about having a disability) or creation of a fake badge. For each Blue Badge used fraudulently it has been estimated that the cost to a Local Authority could be in the region of £550 per annum in lost parking income.
- 4.3 As in previous years it is intended that the Internal Audit and Fraud team will remain responsive to the needs of the Council, the Directors and Senior Management during 2017-18; this is reflected in the provision of contingencies within the Plan for responsive work, investigations and advice and information unknown at the time of planning. It should be recognised, however, that any requests for additional work which are not covered by the allowances within the Plan may impact on the team's ability to achieve work specified in the Plan and will therefore be considered on a risk basis.

5. Monitoring & Reporting

- 5.1 The Internal Audit and Fraud Plan will remain under review throughout the year and be adjusted as necessary, in response to changes in the Council's business, risks, operations, programs, systems and control. All such changes will be reported to and agreed with Management Team and Audit Committee.

- 5.2 The performance of the Internal Audit and Fraud function is monitored and reported to the Audit Committee through regular reports including the overall opinion on the Council's governance, risk and control environment in the Annual Internal Audit Report.

Area of Audit Focus	Planned Days	Assurance/ Consultancy	Directorate	Rationale/Proposed High Level Scope
The Savings and Transformation Strategy	15	A	All	This audit aims to provide assurance on delivery of the Strategy which is key to ensuring a viable and sustainable financial future for the Council and requires the achievement of ambitious savings and, increasingly, consideration of new ways of working and the related skills
Risk Management	10	A	All	Following the review and refresh of the Risk Management Strategy and Guidance this audit will aim to provide assurance that risks are being appropriately evaluated and escalated and that appropriate controls/residual actions have been identified
Serious and Organised Crime - Risk to Procurement Activity	10	A	All	Following a review undertaken by the Home Office which identified some vulnerabilities a recommendation was made to all Council's to undertake an audit of arrangements to manage procurement related serious and organised crime risks
Bribery & Corruption	10	C	All	A review of the Council's compliance with the requirement to take reasonable steps to avoid bribery and corruption to provide advice on any gaps to be filled or areas for development
Safeguarding	10	A	All	A follow-up to the 2016/17 audit to provide assurance that progress has continued and areas for development identified are now addressed
General Data Protection Regulations	10	C	CS	A 'readiness' review in line with new legislation due 25th May 2018 to provide advice on any actions needed to meet requirements
Information Governance including data sharing agreements	12	A	CS	Following development of the Information Governance OSG and Policy this review will provide assurance that the framework now in place to manage risk in relation to date creation, retention, sharing and destruction to ensure compliance with legislation and mitigation of reputational and financial risk
IR 35	5	C	CS	A review to establish whether any contractor or consultant arrangements comply with the new IR35 public sector requirements from April 2017
Corporate Governance - compliance with new framework and Policy Management	15	A	CS	A post implementation review to provide assurance on compliance with the new CIPFA/Solace Governance Framework, the review will also include a review of corporate policy management viewed as a cornerstone of governance
Licensing	12	A	CS	A review to provide assurance that controls are adequate to manage keys risks including of fraud and safeguarding
Payroll - Payment run	8	A	F&T	Cyclical cover of key/material financial system, this 3rd cycle will complete the review of the whole Payroll system
Helpdesk	12	A	F&T	A re-audit following implementation of the new helpdesk system
IT Disaster Recovery Plan	10	A	F&T	A re-audit following revision and updating of the IT Disaster Recovery Plan to provide assurance that the new Plan is fit for purpose based on business criticality
Cyber Attacks	12	A	F&T	Cyber attacks are considered to be a key risk to all organisations with recent cases impacting significantly at Local Authorities. The audit will aim to provide assurance that controls are in place to manage the risk to a reasonable level
Change in banking arrangements	5	C	F&T	Ad hoc advice on controls required for new processes as relevant
S106 agreements	12	A	PHEH	A follow-up to the 2015/16 audit of s106 which found a number of areas for development to provide assurance that the risks identified have now been addressed through adequate and effective control processes
Local Plan	12	A	PHEH	Following the audit undertaken in 2016/17 ongoing work will be undertaken at key stages in the development
Development Management	10	A	PHEH	Post-implementation review of revised approach following consultancy work in 2016/17 to provide assurance on implementation and effectiveness of changes
Building Control Resilience	10	A	PHEH	A review of the existing partnership to give assurance on resilience and sustainability
Planning enforcement	10	A	PHEH	An audit to provide assurance that planning enforcement activity is undertaken appropriately to ensure legislative compliance and effective use of sanctions including financial penalties if appropriate
Health and Safety	10	A	PHEH	A review to provide assurance that controls are adequate to ensure compliance with key legislation and manage the risk of harm to staff, contractors and service users
Air Quality Management	10	A	PHEH	An audit to provide assurance that processes in place meet statutory requirements, support environmental objectives and ensure air quality is considered in relevant decisions
Housing Discretionary Payments and Grants	15	A	PHEH/F&T	An audit which will include a focus on fraud and safeguarding risks to provide assurance that processes, including application and monitoring, are adequate and effective to ensure claims are bona fide and meet service users needs
Business Continuity Plan	10	A	SSLT	A re-audit following revision and updating of the Council's Business Continuity Plan to provide assurance that the new Plan is fit for purpose and appropriately risk based
Waste Contract Tender	20	C	SSLT	Consultancy work due to the financial materiality and public interest element of this key project, to include providing ongoing advice in relation to project and partnership governance and key risks including financial and reputational
Follow up of all recommendations agreed by management	10	A	All	Allowance for following up the implementation of actions agreed and reporting to Audit Committee
Proactive fraud activity				
National Fraud Initiative	100			Time for sifting results to inform whether referral to DWP and/or investigation by TMBC is required - results of the bi-annual matching process and the annual SPD to electoral role match were received in January 2017 and work is ongoing
KIN and other data matching/analysis to reduce fraud	30			Time for attendance at and chairing the KIN Board as well as sifting results of data matches to inform whether investigation or other action is required and document outcomes, including savings
Blue Badge Fraud	10			Liaison with KCC to address risks in relation to fraudulent use of blue badges with the aim of increasing income to the Council
Provision of training, advice and increasing fraud awareness	20			Rolling programme of fraud awareness training and ongoing provision of advice as required
Support to other enforcement activities	20			Ongoing provision of advice and support as required
Single Point of Contact for DWP	40			To fulfil role required by DWP
Allowances for work unknown at the time of planning				
Responsive work	15			Allowance for the provision of advisory or consultancy work during the year, for example in relation to system changes, key projects, partnership development or significant new contracts
Advice and information	12			Allowance for the provision of advice in relation to governance, risk or controls during the year
Investigations	100			Includes investigation of Council Tax Reduction Scheme fraud, joint working with DWP and investigating potential fraud in relation to other Council services as well as investigations arising from data matches from NFI and KIN outputs
	632			

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Chair of the Audit Committee

Part 1- Public

Delegated

1 MEMBERS ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

This report explains how those charged with governance are required to assure the external auditor that the Council has complied with the requirements of the International Standards on Auditing.

1.1 Introduction

1.1.1 The International Standards on Auditing require the external auditor to be assured that those charged with governance (TCWG) are fulfilling their role in relation to management processes for identifying the risk of fraud and breaches of internal control. Specifically this requires confirmation of:

- How TCWG oversee management processes to identify and respond to such risks.
- Whether TCWG have knowledge of any actual, suspected or alleged frauds affecting the Council.

1.1.2 A set of specific questions were received from the external auditor. Responses are then given to these questions in order to demonstrate and assure the external auditor that the Council has complied with the Standards.

1.1.3 It is the Audit Committee that has responsibility for corporate governance for this purpose.

1.2 Assurance Evidence

1.2.1 The questions and the accompanying responses to the questions are attached at **[Annex 1]**. The responses to the questions have been prepared and agreed with the Chair of the Audit Committee.

1.2.2 Members of the Audit Committee are required to consider these responses and, in so doing, to be satisfied that the Council is complying with the International Standards on Auditing.

1.2.3 Management Team are also required to provide assurance of compliance with International Standards on Auditing in a separate questionnaire which can be found elsewhere on this agenda. This will provide the Audit Committee with additional evidence for their consideration.

1.2.4 There have not been any reported incidents of significant fraud or error to the Chief Audit Executive during 2016/17.

1.3 Legal Implications

1.3.1 Failure to comply with these Standards could leave the Council open to a higher incidence of fraud and error resulting in additional legal costs to resolve.

1.4 Financial and Value for Money Considerations

1.4.1 Non-compliance with these Standards could result in additional work being required by the external auditor to satisfy them that fraud and error were being prevented.

1.4.2 Any incidents of fraud require in depth investigation and use considerable resources to resolve. Any cost effective action to prevent instances of fraud will result in better use of resources.

1.5 Risk Assessment

1.5.1 It is considered that the risk management system in place supported by the policies and internal controls are sufficiently robust to minimise incidents of fraud and error to ensure compliance with the Standards.

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 **endorse** the responses to the questions set out at **[Annex1]** by way of giving assurance to the external auditor of compliance with the International Standards on Auditing.

Background papers:

contact: Samantha Buckland

Council policies and records

Councillor Vivian Branson
Chair of the Audit Committee

Response from Audit Committee Chair

Fraud risk assessment

Auditor Question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>The Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2016/17. A Statement of Responsibilities for the Statement of Accounts is included in the Statement of Accounts which is approved by the Audit Committee and subsequently signed by the Chairman of the Committee and the Director of Finance and Transformation. This Statement of Responsibilities is supported by a detailed declaration from the Director of Finance and Transformation.</p> <p>The Accounts also contain the Annual Governance Statement which confirms compliance with the Code of Corporate Governance. It is signed by the Chief Executive and the Leader of the Council and confirms that there are no known breaches of laws and regulations.</p> <p>The Accounts are presented to Members with an accompanying report which explains significant items and movements.</p>
What are the results of this process?	We consider that the potential for material misstatement within the financial statements due to fraud is negligible. This assessment is based upon the use of budgetary control, risk management and significant peer review by senior officers as part of the closure of accounts process. No material risks have been identified for 2016/17.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption Policies supported by a Whistleblowing Policy, all of which are reviewed annually, with outcomes being reported to Members. There is a comprehensive internal audit programme based upon a risk assessment that covers all of the main accounting systems on a regular basis. These reviews result in an assurance level being given to Members for each individual audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their Annual Report. In addition, all reports and recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement.</p> <p>The Council works with partners to identify and investigate fraud. The referrals made through the National Fraud Initiative (NFI) exercise are investigated and outcomes are reported to Members of the Audit Committee.</p> <p>The Counter Fraud function works closely with the Department of Work and Pensions (DWP) to investigate allegations of fraud. There is also participation in the Housing Benefit Matching System that uses data matching in order to identify incorrect benefit payments.</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	The Audit Committee is responsible for overseeing the risk management process in place. The Council acknowledge the inherent risk of fraud occurring within the organisation, however, while there are systems recognised as being more at risk of fraud than others no specific fraud risks have been

	<p>identified by TCWG in relation to location or area. In addition, regular reporting of insurance claims takes place. This would include any claims that have arisen from fraud or breaches of internal control.</p> <p>When the Annual Audit Plan is considered by the Audit Committee it will have taken into account any areas identified as high risk. Members receive an Annual Fraud Report detailing the work of the Investigations Team into the Council's highest fraud risk areas. Members are updated on publications such as "Protecting the Public Purse", exercises such as the National Fraud Initiative and action taken to address any issues raised.</p>
Are internal controls, including segregation of duties, in place and operating effectively?	<p>Members are presented with an Annual Governance Statement that informs them of the procedures in place designed to minimise the risk of fraud and error.</p> <p>The Internal Audit process requires Internal Audit to give a level of assurance on the area audited. There are regular reports provided to the Audit Committee that inform Members of these assurance levels. Members are also given a summary of the audit with details of any recommendations made.</p> <p>The Committee are able to question the Chief Audit Executive on the contents of this report in order to satisfy themselves that adequate internal controls are in place to prevent fraud and breaches of internal control.</p> <p>Where there is a perceived weakness the report will contain steps recommended to strengthen the controls.</p> <p>Any reports addressed to the Council from the External Auditor are presented to the Audit Committee. The External Auditor and/or his representative/s regularly attend Audit Committee meetings and will present their findings to the Audit Committee as well as answering any questions on the reports.</p>
If not, where are the risk areas and what mitigating actions have been taken?	N/a
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	<p>We consider that the potential for override of controls or inappropriate influence is minimal. This assessment is based upon the use of budgetary control and significant peer review by senior officers as part of the closure of accounts process. No material risks have been identified for 2016/17.</p>
Are there any areas where there is a potential for misreporting?	None to the best of our knowledge.
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	The Anti-fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified.
What arrangements are in place to report fraud issues and risks to the Audit Committee?	Update on the work of both the Internal Audit function and Counter Fraud function is a standing item on the Audit Committee agenda.
How does the Council communicate and encourage	In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud

ethical behaviour of its staff and contractors?	and Corruption Policy and the Whistleblowing Policy are circulated to staff annually via "Netconsent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. Other relevant policies are also circulated as appropriate. All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Staff in some areas such as Housing Benefits and Internal Audit are also required to sign additional specific Codes of Conduct.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a Whistleblowing Policy for all Members, employees and contractors. This Policy enables concerns to be raised confidentially with an explanation of how concerns raised will be investigated and dealt with. It also gives guidance on the types of concerns to raise. The most recent version of this Policy was circulated to staff using "Netconsent". In addition, fraud awareness training is provided to staff. Training was given to revenues and benefits staff in 2016/17. No significant issues have been reported.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None to the best of our knowledge.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?	The only frauds that have been reported to Members during 2016/17 related to Council Tax, Housing and Housing Benefit. No other significant concerns in 2016/17 have been reported to Members.

Laws and Regulations

Auditor Question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Director of Central Services fulfils the statutory Monitoring Officer role including the requirement to report any legislative breaches. Internal Audit considers compliance with legislation and statutory regulations in the work they undertake and report accordingly to Management Team and the Audit Committee.
How does management gain assurance that all relevant laws and regulations have been complied with?	All internal audit reports are issued to the relevant director and the Chief Executive and findings are reported to the Audit Committee, any non-compliance issues found through audit work undertaken would be reported through these routes. The Monitoring Officer is a member of management team and all Member decision items include a section to draw out any legal implications pertaining to the subject matter
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Assurance is provided by way of the Local Code of Corporate Governance which is ordinarily subject to annual review and the Annual Governance Statement. In addition, all Member decision items include a section to draw out any legal implications pertaining to the subject matter.
Have there been any instances of non-compliance or suspected non-compliance with laws and regulations since 1	None to the best of our knowledge. There have not been any instances of non-compliance with laws or regulations or any possible instances of non-compliance reported to the Monitoring Officer during the year.

April 2016?	
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation or claims received are reviewed and progressed by the Service Director in liaison with the Monitoring Officer as appropriate.
Is there any actual or potential litigation or claims that would affect the financial statements?	We are not aware of any actual or potential litigation or claims that could materially affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	There have been no such reports.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Management Team

Part 1- Public

Matters for Information

1 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

Under International Standards on Auditing our external auditors ask Management to consider and formally respond to a set of questions. The Audit Committee is also asked to do so and this report provides supporting evidence for that purpose.

1.1 Assurance

1.1.1 Under International Standards on Auditing our external auditors need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulation. They are also required, amongst other things, to make inquiries of both Management and the Audit Committee as to their knowledge of actual, suspected or alleged fraud.

1.1.2 To assist our external auditors meet the requirements of International Standards on Auditing they ask Management to consider and formally respond to a set of questions. The questions and responses can be found at **[Annex 1]**.

1.2 Legal Implications

1.2.1 Failure to comply with these Standards could leave the Council open to a higher incidence of fraud and error resulting in additional costs to resolve.

1.3 Financial and Value for Money Considerations

1.3.1 Non-compliance with these Standards could result in additional work being required by the external auditor to satisfy them that fraud and error were being prevented.

1.3.2 Any incidents of fraud require in depth investigation and use considerable resources to resolve. Any cost effective action to prevent instances of fraud will result in better use of resources.

1.4 Risk Assessment

1.4.1 It is considered that the risk management system in place supported by the policies and internal controls are sufficiently robust to minimise incidents of fraud and error to ensure compliance with the Standards.

Background papers:

contact: Samantha Buckland

Council policies and records

Sharon Shelton

Director of Finance and Transformation on behalf of Management Team

Responses from Management:

Audit Query	Management Response
<p>Are you aware of any matters or events which occurred during the year that could impact the 2016/17 financial statements?</p>	<p>None to the best of our knowledge, other than the potential sale of Council owned assets in 2017/18.</p>
<p>Have you considered the appropriateness of the accounting policies to be used in the period? And whether any changes in the Council's activities that have occurred in the year that could require them to be updated?</p>	<p>Review of accounting policies recently undertaken with no major updates considered necessary.</p>
<p>Are you aware of any laws, accounting standards, corporate governance and regulatory requirements (including changes in or new items) that could affect the 2016/17 financial statements?</p>	<p>None to the best of our knowledge. Management Team is kept informed of changes in accounting standards and regulatory requirements that could have a significant impact on the financial statements.</p>
<p>What are your views on the Council's control environment, including the process of reviewing the effectiveness of the system of internal control and the results of any review?</p>	<p>Internal Audit reviews the effectiveness of internal controls and report accordingly to Management Team. Recommendations are made to Chief Officers, and at least once a year, a summary of recommendations is given to the whole Management Team. Management Team is satisfied as to the effectiveness of internal controls.</p>
<p>What are your views on the Council's risk assessment process as it relates to financial reporting?</p>	<p>Risks which relate to financial reporting are mitigated by a robust financial planning and control framework including budgetary control and ensuring that staff involved in the process have the requisite skills and experience to fulfil their responsibilities. We consider that the potential for material misstatement within the financial statements due to fraud is negligible. This assessment is based upon the use of budgetary control, risk management and significant peer review by senior officers as part of the closure of accounts process. No material risks have been identified for 2016/17.</p>
<p>What are your views on fraud risks, including:</p> <ul style="list-style-type: none"> - The assessment process to identify and respond, including relevant controls and their monitoring of those controls - Results of this process 	<p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud and Corruption Policies supported by a Whistleblowing Policy with outcomes being reported to Members. Any reported allegations of fraud will be investigated and dealt with according to the relevant policies. The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest. The</p>

<p>- Accounts/Classes of transactions/disclosures where fraud risks were identified or are likely to exist</p>	<p>subsequent reviews result in an assurance level being given to Management and Members for each audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their Annual Report. In addition, all reports and recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement.</p> <p>There is a strong risk management culture within the organisation. Management is required to consider fraud and error within their services as part of the risk management process. Management have a duty to report any changes in movement towards higher risk and are also required to report any concerns of fraud for investigation.</p>
<p>Are you aware of any whistleblower tips or complaints? If yes, what has been management's response?</p>	<p>There was one issue raised during the year 2016/17, this is subject to investigation by management through the whistleblowing process and supporting HR Policies. Due to its recency no conclusion has been reached on whether further action is required.</p>
<p>How would you communicate with those charged with governance regarding business risks (including fraud)?</p>	<p>The Council's standard report template requires Officers and Members to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority.</p> <p>Management when completing their operational risk registers are asked to consider those risks relevant to that service area including business risks.</p> <p>Anti-fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified.</p>
<p>How do you tend to communicate with other staff regarding their views on business practices and ethical behaviour?</p>	<p>In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud and Corruption Policy and the Whistleblowing Policy are circulated to staff annually via "Netconsent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. Other relevant policies are also circulated as appropriate.</p> <p>All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Staff in some areas such as Housing Benefits and Internal Audit are also required to sign additional specific Codes of Conduct.</p>
<p>What policies and procedures are in place for identifying, evaluating and accounting for litigation claims and assessments?</p>	<p>Any claims received are reviewed by the Monitoring Officer and progressed according to the circumstances of the claim.</p>
<p>Has the Council made use of any financial instruments (including derivatives) in the year?</p>	<p>As part of its day to day treasury management activity the Council will hold financial instruments such as fixed term deposits and certificates of deposit during the year.</p>
<p>What is the status of contingencies from the prior</p>	<p>There has been no material change in the status of contingent assets/liabilities from the prior year. Provisions held are reviewed annually as part of the closure of accounts process</p>

year?	and balances held updated accordingly.
Are you aware of any significant transactions which have taken place that are outside the normal trading activities of the Council?	None to the best of our knowledge.
Are you aware of any events or changes in circumstances that would cause an impairment of Non-current assets where applicable?	None to the best of our knowledge, other than as a result of the revaluation of Council owned assets as part of the closure of accounts process.
Are you aware of any guarantee contracts that the Council is party to?	The Council is acting as guarantor for the pension liability of Tonbridge and Malling Leisure Trust (TMLT) to permit its entry into the Kent County Council Superannuation Fund.
Are you aware of any allegations of fraud, errors, or other irregularities during the period?	None to the best of our knowledge. There have not been any allegations of fraud, errors or other irregularities reported to the Director of Finance and Transformation during the year.
Are you aware of any instances of non-compliance with laws or regulations or any possible instances of non-compliance?	None to the best of our knowledge. There have not been any instances of non-compliance with laws or regulations or any possible instances of non-compliance reported to the Monitoring Officer during the year.
Are you aware of any inquiries or examinations performed by licensing, tax or other authorities and other regulators?	There have been no such inquiries or examinations during the year which may give rise to a risk of material misstatement.
Are you aware of any transactions/events and conditions (or change in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	None to the best of our knowledge, other than those reported in prior years and ongoing (business rates appeals and embedded leases).
For significant accounting estimates, how are the accounting estimates made? What is the nature of the data used? What is the degree of estimate uncertainty inherent in the estimate?	External advice obtained on potential success of business rates appeals lodged and in respect of embedded leases make use of information as to purchase price of vehicles from a Kent district council with an in-house direct service organisation.
Are you aware of the existence of any loss contingencies	Loss of income claims from the TMLT were received and settled in year.

and/or claims?	
What are the results of the Council's preliminary going concern assessment, including awareness of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	<p>Going concern status is maintained through the use of the Medium Term Financial Strategy (MTFS). The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities.</p> <p>The Council currently holds adequate levels of reserves that could be used in the event of emerging financial difficulties in the short term, allowing for more detailed plans to be considered and put in place for the longer term.</p> <p>Alongside the MTFS sits a Savings and Transformation Strategy (STS). Its purpose to provide focus, structure and direction in addressing the significant financial challenge faced by the Council.</p> <p>Management Team receive regular reports on the financial position of the Council and, in turn, the impact on the Medium Term Financial Strategy (including a savings monitoring statement linked to the STS) and reserve balances.</p> <p>The assessment of going concern will also take into account the Council's status as a tax-raising body.</p>
If applicable, are there any areas where internal controls have been strengthened / implemented following external audit recommendations from prior year?	External audit recommendations following the audit of the 2015/16 accounts and certification of the Housing Benefit Subsidy Claim have been actioned.
Have there been any solicitors used by the Council during the year or who were working on open litigation or contingencies from prior years.	Blake Morgan. Bevan Brittan.
Were any other advisors consulted during the year? If yes, what was the purpose of this consultation?	Advisors used on other than what might be considered normal day to day business activities include Hartnell Taylor Cook, Blake Morgan and Oaks Consultancy to provide options appraisals or legal advice in respect of certain Council owned assets.
Are you aware of any reports which have been made under the Bribery Act?	No reports have been made during the year under the Bribery Act.
Are you aware of any instances where the Council's service providers have reported any of the following items that would affect the financial statements: <ul style="list-style-type: none"> - Fraud - Non-compliance with laws and regulations - Uncorrected misstatements 	None to the best of our knowledge.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 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 2016 to February 2017.

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 Strategic Risk Register based on the Corporate Strategy. Training for the Committee on Risk

Management was originally planned ahead of the January meeting; however this has now been postponed to the April Committee. The revised Strategy was presented and approved at January's meeting.

- 1.2.4 As reported to the January Audit Committee meeting the scheduled audit of Complaints was to be combined with the Programme Management Audit to focus on the implementation of the new complaints system. However, this audit has now been cancelled and in its place we are undertaking a consultancy piece of work on Complaints Policy to assist review and alignment of existing policies.
- 1.2.5 At the January meeting Members requested an update on the reporting of the Empty Properties Group, we confirmed that the Group reported to the Communities and Housing Advisory Board in November 2016 and plan to report at least annual going forward. We are currently undertaking an audit of the Empty Homes service and will report these findings to the July meeting.
- 1.2.6 Of a total of 25 audits planned for 2016/17 (previously 26, however the audit of Project and Programme Management has been cancelled) the team have to date issued final reports and agreed management action plans in respect of 14, this includes the consultancy work undertaken in relation to the revised Corporate Governance Framework and developing the new Risk Management Strategy and Guidance (however the last is ongoing and includes training to be provided to this Committee). We have four audits where a draft report has been issued or is imminent, a further four audits underway and one audit about to start. The remaining two audits will now be delivered as consultancy work and are in progress. The current status of all audits (including consultancy) 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]**.
- 1.2.7 In accordance with the Public Sector Internal Audit Standards, and to provide assurance that issues identified in audits undertaken have been addressed through agreed actions, Internal Audit follow-up implementation of all recommendations made. Up to 31 December 2016 83 outstanding recommendations were due for implementation, of these 28 are rated as Low Priority and are not followed-up by Internal Audit. Of the remaining 55:
- 24 have been completed;
 - 8 have not yet been implemented but revised dates have been agreed (none of which were High Priority);
 - 9 will be looked at as part of a follow-up audits in 2017-18;
 - 2 have been superseded;
 - 1 was subsequently deemed impractical and not implemented.

The remaining 11 cannot be assessed at this time as we are either awaiting a response from the service or are in progress with further clarification from the service needed. Detail of each recommendation can be found at **[Annex 3]**.

1.3 Public Sector Internal Audit Standards (PSIAS) and External Quality Assessment

- 1.3.1 The results of the External Quality Assessment undertaken in May 2016 were reported to this Committee in September 2016. Of 56 areas reviewed the Assessment found no areas of non-conformance and only 8 areas of partial conformance; some of which were considered quite minor. Proposed actions and timescales were considered for the 8 Standards assessed as partially conforms and the report recognised that work was already in progress to address the majority of these areas through the 2016/17 Annual Audit Plan. An action plan has been developed to address any outstanding issues and was updated at 10th March 2017. To assure Members on progress made the action plan can be found at **[Annex 4]**.
- 1.3.2 For information some amendments to the PSIAS have recently been consulted on and are likely to be implemented from 1st April 2017. These amendments are relatively minor in nature. It is proposed that once confirmation has been received that the changes have been implemented any required actions to address changes will be reported to the July Committee meeting.

1.4 Prevention and Detection of Fraud and Corruption

- 1.4.1 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 received in January 2017.
- 1.4.2 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, 683 matches have been closed with errors found in 182 cases. There are 25 cases currently being actively investigated. We have since received the 2016-17 bi-annual NFI match with a total of 1,753 matches. Of these 313 have been closed with no further action and 115 have been opened to investigate. We also received the NFI 2016-17 SPD match, of which there were 842 matches, 3 have been closed and 16 have been opened to investigate.
- 1.4.3 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. Five data mismatches were received, of which 3 were closed with no further action required and 2 have been referred to compliance. A further data match has been received, which is to be investigated.

- 1.4.4 Meetings are being set up with key stakeholders to take forward other proactive work in the 2016/17 Audit and Fraud Plan. To date the Revenue & Benefits fraud awareness training programme has been rolled out and the fraud team assisted on a taxi licence enforcement day.

1.5 Investigating Fraud

- 1.5.1 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.
- 1.5.2 In 2016/17 to date, the Fraud Team have closed 290 cases (this includes those carried over from the previous year) and received a total of 267 referrals including NFI; there are 33 ongoing investigations. The total amount of income due as a result of investigations to end of February 2017 is £61,047 with increased annual liability of £47,518. **[Annex 5]** summarises the results of investigations concluded in 2016/17 to date.
- 1.5.3 We issued the first Single Person Discount Caution given by Tonbridge & Malling Borough Council and we also charged a penalty on 3 concluded council tax reduction support investigations plus a further penalty following a DWP investigation.

1.6 Legal Implications

- 1.6.1 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.
- 1.6.2 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.
- 1.6.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.7 Financial and Value for Money Considerations

- 1.7.1 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.

- 1.7.2 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.

1.8 Risk Assessment

- 1.8.1 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.
- 1.8.2 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

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2016-17 Internal Audit Assurance Reviews

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

Public Health	1	Complete	Amber	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - TMBC deliver the outcomes from the core service specifications from KCC and actively work towards achieving the set targets of the funding agreement.</p> <p>The Healthy Living team fulfil the requirements of the Service Level Agreements from KCC's Public Health Team. However the performance of commissioned providers should be reviewed to ensure the accuracy and quality of the performance figures submitted.</p> <p>RMO2 - The spend for Public Health is adequately monitored against the Budget.</p> <p>The funding received from KCC is spent appropriately with the contingency of a reserve built up from consistent underspend in previous years.</p> <p>RMO3 - Delivery and outcomes of Public Health initiatives are accurately and consistently reported to management and KCC.</p> <p>The Healthy Living team fulfil the required reporting arrangements to KCC Public Health and appropriate internal and external boards and committees. Figures and statements reported are accurate and relevant.</p>
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Debtors inc debt recovery	1	Complete	Amber	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - Invoiced income is appropriately managed to ensure that all income due is received, banked and reconciled timely. 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.</p> <p>RMO2 - The finance system is appropriately reconciled to ensure that any discrepancies are quickly identified and addressed.</p> <p>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.</p> <p>RMO3 - Refunds are effectively managed to ensure that monies owed are paid promptly to maintain good customer relationships.</p> <p>Refunds were effectively managed.</p> <p>RMO4 - Effective processes are in place to identify and manage debts and write-offs (including aged debts), with appropriate reporting to management.</p> <p>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.</p>
Recruitment Strategy	1	Now consultancy piece of work in Planning stage	N/A	
Risk Management	2	Complete	N/A	Consultancy piece of work with Risk Management Strategy rewritten with accompanying guidance.
Demand Management	2	Quality Assurance - draft report imminent		

Financial Planning & Budget Monitoring	2	Complete	Green	<p>This audit reviewed the Council's arrangements in respect of the following scope areas:</p> <p>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.</p> <p>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.</p>
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Capital Programme Monitoring	2	Complete	Green	<p>This audit reviewed the Council's arrangements in respect of the following scope areas:</p> <p>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.</p> <p>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.</p>
Asset Management of IT equipment, inc acquisitions and disposals	2	Complete	Amber	<p>This audit reviewed the controls in place in relation to procuring, managing and disposing of IT hardware assets.</p> <p>The IT department follow the Council's procedural guidance for the procurement of assets. An asset register is maintained as the central record for managing all IT assets within the Council. Our review of this found that the register was not fully complete, including whether the electrical PAT (portable appliance testing) was up to date, although each individual item will have a visual inspection noted on the asset itself. Annual assets checks are completed and we were able to verify that the assets in our sample had been checked in the previous 12-months. Disposal of assets is well managed, with data being wiped and a 3rd party used for physical disposal.</p>

Council Tax and Business Rates Recovery	2	Complete	Green	<p>This audit reviewed the Council's arrangements in respect of the following scope areas:</p> <p>Documented procedure notes:- Procedures were in line with the Corporate Debt Recovery Policy.</p> <p>Timely identification of accounts in arrears:- Identification was timely with reminders sent at appropriate intervals.</p> <p>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.</p> <p>Collection rates are monitored and reported:- Recovery rates and arrears are accurately reported.</p> <p>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.</p>
Corporate Governance – Phase 1	2	Complete	no opinion	Consultancy piece of work, with a gap analysis undertaken between the old and new versions of the CIPFA / SOLACE Good Governance framework to assist development of the new Corporate Governance Framework.
Review of controls to prevent fraud in Business Rates	3	Fieldwork		
Review of controls to prevent fraud in relation to grants and financial support	3	Fieldwork		

Partnerships	3	Complete	Amber	<p>This audit reviewed whether the Council has effective arrangements in place to manage risks in relations to partnership arrangements and ensure delivery of required outcomes.</p> <p>Overall the Council makes good use of a wide variety of partnerships to assist in delivery of services, make cost savings and improve the borough for its residents, businesses and visitors. There is an increasing pressure on Local Authorities to work in partnership to deliver further savings and efficiencies and the Council is exploring possibilities in this area.</p> <p>While there is some guidance on contracts over £5,000 within the Council's constitution, and a few guiding principles, there are insufficient frameworks in place to help Management and Officers make best use of partnerships. Such a framework is essential to help gain maximum benefit and minimise the risk of financial loss, poor delivery and reputational damage should a partnership fail or not meet required outcomes.</p>
Payroll	3	Complete	Green	<p>This audit reviewed the Council's arrangements in respect of the following scope areas:</p> <p>Procedure Notes:- Procedure notes require review and updating.</p> <p>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.</p> <p>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.</p>

Business Continuity Planning – Emergency	3	Complete	Green	<p>The objective of this audit was to provide assurance over the Council's resilience to cope with an emergency.</p> <p>Overall there were good procedures in place for dealing with an emergency in the Borough. The Major Emergency Plan gives detailed guidance and information to Senior Management responsible for the operation of the Emergency Control Centre, to officers responsible for dealing with the partner agencies, and those affected by the emergency.</p> <p>Officers at all levels were well trained, but less practiced in the procedures which need to be implemented to enable the Council to provide an effective response to an emergency. The Council should ensure that all aspects of the Emergency Plan are tested annually so that lessons learnt can be applied before rather than during an actual emergency.</p>
Housing Benefits Overpayments	3	Complete	Green	<p>The objective of this audit was to provide assurance that the Council has effective arrangements in place to manage housing benefit overpayments.</p> <p>Overall the service is performing well with only minor improvements identified to further strengthen the processes. Compared to the previous first half financial year, 2016/17 saw a decrease in Housing Benefit overpayments (HBOP) and increase in recovery.</p>
Project and Programme Management	3	Cancelled		<i>Significant work has been undertaken on audits that covered elements of project and programme management, including the audits of Capital Programme Monitoring, Partnerships and ongoing work on IT Strategy. As a result it is felt that there is now limited value in undertaking a separate piece of work.</i>
Complaints	3	Quality Assurance		This is now a consultancy piece of work.
Safeguarding	3	Quality Assurance – draft report imminent		
IT Strategy & Infrastructure	4	Planning		

Leisure Development – external provision (Holiday Activity Programme)	4	Complete	Green	<p>The aim of the audit was to provide assurance that the Council has effective arrangements in place to manage risks in relation to the external delivery of the Holiday Activities Programme.</p> <p>Overall the objectives for outsourcing the Holiday Activity Programme following the Members’ review were successfully met. A number of teething problems were identified which can be easily resolved by implementing extra controls, for example reconciliation of invoices against Leisure Passes to ensure that the Council is paying the correct figures. Future provision of the service is subject to further review by Members and therefore longer term provision cannot currently be explored by Leisure Services.</p>
Development Control	4	Fieldwork	N/a	This is now a consultancy piece of work
Housing – Empty Property Follow Up	4	Fieldwork	TBC	
Parking Income	4	Quality Assurance - draft report imminent	TBC	
Local Plan	4	Fieldwork	TBC	
Corporate Policy Maintenance	CF from 15/16	To be carried forward to 17/18	TBC	Not completed in 16-17 due to resource availability. This work will be incorporated into the scope of the 2017/18 audit of Corporate Governance.
Licensing	CF from 15/16	To be carried forward to 17/18	TBC	Not completed in 16-17 due to resource availability, although some pro-active fraud work has been undertake, including assistance on a taxi licence enforcement day. A full audit will be undertake as part of the 2017/18 Plan

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

Empty Properties	4	See 16/17 follow-up	see 16/17 follow-up	<p>This audit reviewed the Council's arrangements in respect of the following risk management objectives (RMOs):</p> <p>RMO1 - The role of Housing as corporate lead is clearly defined and there is evidence that the role is proactively fulfilled. Although the corporate lead role was not formally defined Housing has been providing an appropriate level of oversight and facilitation, including acting as Chair of the Empty Homes Group.</p> <p>RMO2 - The Corporate Working Group to tackle the issue of Empty Homes has been established with a clear terms of reference. It meets regularly and has clear action plans, monitoring and escalation processes in place. The Working Group has been established and a number of meetings have been held. The Terms of Reference has been drafted however further embedding is needed in relation to action plans and monitoring as the baseline number of properties was only recently agreed.</p> <p>RMO3 - Public awareness has been raised through appropriate marketing strategies and the reporting process is simple and accessible. The impact/success of both is monitored. Public awareness campaigns have been undertaken, however monitoring of the impact/success links to the further embedding needed at RM02.</p>
Section 106 Developer Contributions	4	Complete	Red	<p>This audit reviewed the Council's arrangements in respect of s106 agreements.</p> <p>At the time of the audit it was not possible to identify the volume or the materiality of all Planning Applications that have been subject to a planning obligation (s106 Agreement), due to the lack of data being retained in one location such as a Single Monitoring System (SMS). As a result, following issue of the final report, the findings were discussed with Management Team (MT) and, in addition to some minor amendments to the report, it was agreed that timely action would be taken and that audit would follow up the outcomes of this. A report on progress from the service was taken to MT in November 2016 and a Developer Contributions Monitoring Group was set up and now meets regularly. A full follow-up audit has been included in the 2017/18 Plan.</p>

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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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Internal Audit and Counter Fraud Update – Annex 3. Follow up of recommendations

Service	Audit Title	Recommendation	Priority	Date due	Audit opinion on client response	Revised Target Date
Central	Audit Follow Up - Mobile Phones	The TMBC Mobile Phones Policy should be drafted with mention being made to the Unified Communications System and the impact mobiles have on the Emergency Plan.	High	31/07/2015	Completed	
Central	Audit Follow Up - Recruitment Vetting	Ensure that a full review of all posts against DBS requirements is carried out appropriately	Medium	01/09/2015	Completed	
Central	Community Safety Unit	Invoices should either be authorised by the Community Safety Manager or annotated by him as evidence of being suitable for payment, before passing to another officer with delegated authority.	Medium	30/06/2016	No reply	
Central	Community Safety Unit	The Partnership should include a section in their Terms of Reference regarding the use and level of reserve funds, including the criteria in the event that a contributing partner withdraw from the Partnership, ceases to exist, or the membership of the Partnership changes.	Medium	31/10/2016	No reply	
Central	Complaints Handling	Ensure all relevant employees are aware of the complaints procedures and requirements, including a complainant's right to escalate their complaint	Medium	30/09/2015	Follow-up audit	
Central	Complaints Handling	Use the implementation of the new complaints handling system to perform a review of both the Corporate Complaints Policy and Procedure in line with LGO guidance	Medium	30/09/2015	Completed	

Internal Audit and Counter Fraud Update – Annex 3. Follow up of recommendations

Central	Complaints Handling	Update as part of the complaints review, the Council's policy and procedures on compensation arising from complaints, ensuring that doing so complies with any requirements for Committee approval	Medium	30/11/2015	In progress	
Central	Members' Allowances	Seek advice from Legal as to whether the Council needs to advertise in a local newspaper as per Part 3, para 16 (2) of The Local Authorities (Members' Allowances)(England) Regulations 2003, or whether the information being available online and, by request, at Council offices is acceptable.	Medium	30/04/2016	Not yet implemented (revised date agreed)	30/04/2017
Central	Procurement	Staff should be reminded that original contract documents should be passed to Legal Services for retention in a secure fire-proof location. (Directors to cascade via SMT)	Medium	31/08/2015	Completed	
Central	Tonbridge Castle	Risk assessment(s) should be drawn up for all facilities hire activities at the Castle using the current format. Existing risk assessments should be converted to the current format.	High	30/04/2016	Superseded	
Central	Tonbridge Castle	A reconciliation control should be implemented to ensure that all invoices for the hire of the Council Chamber are paid to avoid financial loss.	Medium	30/04/2016	Superseded	
Finance	Building Control	Implement a process to ensure that all income, including VAT, is complete and accurate through reconciliation and has been paid to TMBC in a timely manner	High	30/09/2016	Completed	

Finance	Council Tax and NNDR Recovery	Accounts with an active open ended suppression should be reviewed to see if it is still required. Northgate notes should be updated when reviewed	Medium	31/12/2016	Completed	
Finance	Creditors	Exchequer Services should enquire as to the availability of a reporting function to changes made to supplier details. The service should maintain an appropriate audit trail to demonstrate changes to bank accounts, including any authorisation/verification process.	High	31/03/2016	Completed	
Finance	Creditors	Reinforce the message that all purchases made outside of the exemptions stated in the Financial Procedure Rules should be made through the purchase ordering procedure.	Medium	31/03/2016	Completed	
Finance	Insurance	Evidence of the status of claims should be obtained and retained on file. Create a claim summary front sheet for use on all claims to demonstrate the current status.	Medium	01/06/2016	Completed	
Finance	IT Disaster Recovery Plan	All aspects of the IT Disaster Recovery Plan should be reviewed in liaison with officers from across the organisation, updated in line with current IT industry standards, and should take into account all issues raised within this report. The Plan should then be approved by Management Team. Consideration should be given to the format and presentation for ease of accessibility and reference, ensuring that the versions in use are up to date and all systems used by the Council are captured. Version dates should appear on all	High	30/09/2016	Follow-up audit	

		sections of the plan.				
Finance	IT Disaster Recovery Plan	The IT Manager should liaise with the Council's Data Protection Officer regarding security of back-up tapes taken off site and take any action required.	Medium	30/06/2016	Follow-up audit	
Finance	IT Disaster Recovery Plan	A log of IT disaster incidents and testing of the plan should be maintained detailing what went wrong, what corrective action was taken and any lessons learned. This information should feed into amendments to the Disaster Recovery Plan.	Medium	30/06/2016	Follow-up audit	
Finance	IT Help Desk	Key Performance Indicators need to be regularly reported to the Director of Finance and Transformation to enable performance to be monitored and managed. It is suggested that this is via FSMT on a monthly and annual basis.	High	31/05/2016	Follow-up audit	

Finance	IT Help Desk	An exercise should take place to review all open calls that have exceeded their target dates and take necessary action to facilitate progression or closure, ensuring that notes adequately describe action taken and that the call has been reviewed.	High	31/07/2016	Follow-up audit	
Finance	IT Help Desk	Call notes should adequately describe what action has been taken to enable other officers to deal with the same call and to maintain a complete management trail. This should include explanations of why calls are still open if closure dates have been extended and any and all contact with service users. Officers should ensure that priority set is in line with published guidance.	Medium	30/06/2016	Completed	
Finance	IT Help Desk	In addition to officers monitoring their own workload, open calls should be monitored by the Administrator, Technical Support Manager and/or Duty Officer. This is especially important for calls which are approaching or have exceeded their target closure date. Where necessary assigned officers should be reminded to take action necessary to progress the call and update the service user. Notes should be entered to adequately explain reasons and action taken.	Medium	31/07/2016	Follow-up audit	

Internal Audit and Counter Fraud Update – Annex 3. Follow up of recommendations

Finance	IT Help Desk	Before implementation of the new system a review of the controls should be undertaken to ensure an audit trail exists for all changes made, including, but not limited to, request details being changed by “super users”.	Medium	30/09/2016	Completed	
Finance	IT Network and System User Access	Ensure that line managers are aware of their responsibility to arrange the closure of open accounts within the 90 day limit. Include temporary and agency staff in the current leaver notification process and ensure all relevant system administrators are notified.	High	30/11/2016	In progress	
Finance	IT Network and System User Access	Introduce regular monitoring of network and application access to ensure the Council’s systems continue to be effectively protected.	High	30/11/2016	In progress	
Finance	IT Network and System User Access	Maintain formal records for new accounts granted for all applications.	High	30/11/2016	In progress	
Finance	IT Network and System User Access	Include responsibilities of the system administrator within the Information Security Policy.	Medium	30/11/2016	In progress	
Finance	IT Network and System User Access	Remind officers that they must not amend or cancel the ‘time out’ function for locked screens.	Medium	30/11/2016	In progress	

Finance	IT Network and System User Access	System administrators should to review the security features of their system and/or seek assurance from the software provider that the current software is compliant with our own policy and PSN Code of Connection. Where requirements cannot be built into the system all officers with access should be made aware of requirements, for example if a change of password every 90 days cannot be enforced. The report facility to view passwords for the Adelante system should be disabled.	Medium	30/11/2016	In progress	
Finance	IT Network and System User Access	Ensure all staff are reminded that personal emails should not be used to send or receive work related information or sensitive data.	Medium	30/11/2016	In progress	
Finance	Refunds (Council Tax & NNDR)	In relation to mitigating fraud risk, the Revenue Benefits Team should: - Seek guidance on identifying potential fraudulent activity, and update their procedural documentation to reflect this. - Seek advice from the Fraud Team as to whether the standard refund form should include an anti-fraud declaration, and update and implement as necessary.	Medium	31/10/2016	Not yet implemented (revised date agreed)	31/03/2017
Finance	Refunds (Council Tax & NNDR)	Introduce a management control to check that where system administrators need to self-authorise, these are for bona fide reasons and suitable evidence is retained. The Section 151 officer must be advised of any issues regarding separation of duties for key financial controls.	Medium	31/10/2016	Not yet implemented (revised date agreed)	31/03/2017

Finance	Sickness Absence Monitoring	Management Team should review feedback received to consider what action is required. The issues identified above (with the exception of R1) could be addressed through adopting an integrated electronic sickness absence monitoring system such as HR21 and used for the whole process including recording, monitoring and reporting. This would require a cost/benefit analysis. Should the current e-form procedure for sickness absence recording and monitoring be retained, consider streamlining the process to improve efficiency, for example through merging the self-certification and return to work forms	Medium	31/10/2016	Not yet implemented (revised date agreed)	30/09/2017
Management Team	Sickness Absence Monitoring	All managers should be reminded of the current process and requirements.	Medium	30/04/2016	Completed	
PHEH	Building Control	Formalise Building Control Project Board meetings and ensure that minutes are taken to ensure that identified actions are identified and actioned	Medium	31/07/2016	Completed	
PHEH	Building Control	Establish Contingency plans which would define a clear exit strategy should the partnership no longer be in the best interests of the Council	Medium	31/07/2016	Not yet implemented (revised date agreed)	31/07/2017
PHEH	Cemetery Memorials	Ensure that the Health and Safety Inspection of the Cemetery for 2015 is completed and that a record of actions taken is held	High	15/02/2016	Not yet implemented (revised date agreed)	30/04/2017
PHEH	Homelessness	Update the Strategy as published on the Homelessness Prevention page on the TMBC website.	Medium	30/06/2016	Not yet implemented (revised date agreed)	01/09/2017

PHEH	Homelessness	<p>Review our own performance against the strategy and lessons learnt to help formulate the revised strategy from 2016 onwards.</p> <p>In addition, to inform review and revision of the Strategy contact the partners involved to engage in a West Kent Homelessness Strategy Group meeting to obtain an up to date position on the strategy overall and agree any carried forward actions.</p>	Medium	30/06/2016	In progress	
PHEH	Housing and Financial Assistance	<p>Improve and streamline the customer experience when applying for Housing Financial Assistance and / or Discretionary Housing Payments; consider amending the Housing financial assistance application form to include a section for eligible applicants are able to request Discretionary Housing Payment where applicable, and instigate a joined-up approach where the teams share information to conduct one set of checks and source of client contact.</p>	Medium	31/10/2015	Not implemented	
PHEH	Statutory Nuisance Complaints	<p>Noise boxes and other specialist equipment owned by or hired by the Council should be accurately logged in and out. Calibration should be planned for quieter times of the year to ensure the maximum number of machines are available. Use of devices with expired calibration dates should be avoided.</p>	Medium	30/04/2016	Completed	

PHEH	Statutory Nuisance Complaints	When performing monthly checks of open cases a note should be created to advise that the case has been reviewed and why it is still open to evidence that reviews are taking place. If there is no reason to keep the case open it should be closed within the timescales in the procedure note and not left open "just in case".	Medium	30/04/2016	Completed	
PHEH	Statutory Nuisance Complaints	Completed note books should be checked by the Team Manager to ensure that they are correctly completed, without blank pages, including numbering and date range on the dedicated section of the cover.	Medium	30/04/2016	Completed	
SSLTS	Cemetery Memorials	Discuss the ongoing schedule of inspections with the Health and Safety Officer and amend the Operational Risk Register accordingly	Medium	15/04/2016	Completed	
SSLTS	Cemetery Memorials	Amend the notification letter to require a response from all contactable grave owners	Medium	15/01/2016	Completed	
SSLTS	Cemetery Memorials	Amend notification letter to include a time period for independent repairs to be completed by.	Medium	15/01/2016	Completed	
SSLTS	Cemetery Memorials	Consider reviewing the permit procedure for authorising memorial masons to conduct the work, in particular their access to work at the cemetery	Medium	15/04/2016	Completed	
SSLTS	Cemetery Memorials	Consider the introduction of a review of memorials after their completion to ensure that they comply with the authorised design and finished to a satisfactory standard	Medium	15/04/2016	Completed	

SSLTS	IT Disaster Recovery Plan	Business Impact Assessments should be updated for all business areas and reviewed by the Business Continuity Manager to ensure that the IT Disaster Recovery Plan is based on up to date priorities and criticality.	High	31/07/2016	Follow-up audit	
SSLTS	Refuse and recycling contract management	Ensure local records of defaults are kept up to date with financial penalties applied as relevant.	Medium	01/04/2016	Completed	
SSLTS	Refuse and recycling contract management	Ensure any new contract/agreement contains contingency plans detailing arrangements in place regarding termination of the contract or inability of the provider to continue to deliver the service. This should align to any additional contingency plans provided by the contractor and exit strategies within the contract such as performance bonds.	Medium	01/08/2016	Follow-up audit	
SSLTS	Tonbridge Cemetery Services	Confirm the Council's electronic-only storage meets the legal requirement to hold a Register of Burials.	High	09/11/2015	Completed	
SSLTS	Tonbridge Cemetery Services	Introduce procedures to serve customers requesting to view the Registers of Burial under Article 11 of the Local Authorities Cemeteries Order 1977, including access to information only stored on the BACAS system.	High	09/11/2015	Completed	
SSLTS	Write Offs	Service reports of write offs to be approved by Director of Finance should evidence approval at service manager level.	Medium	10/09/2015	Not yet implemented (revised date agreed)	30/06/2017

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Recommendations to achieve more complete conformance to the Standards

1230 Continuing Professional Development	Response & action date	Progress at 10 th March 2017
<p>In a relatively inexperienced team it is particularly important to have a clear view of the competences needed and the way in which CPD operates at all levels. Only one of the two trainees has so far started professional training and it is unclear what is planned to develop the team as a whole although the steps taken to allow short term secondment to KCC are beneficial in extending experience. The CAE should plan and document her CPD activity.</p>	<p>Each member of staff has their own personal development plan, the progress of which is reviewed at performance meetings. Competency frameworks are in development however in terms of whole team development it is very limited in an organisation of this size. That said a development strategy will be produced across audit and fraud for the 2017/18 year.</p> <p>Although CPD is undertaken by the CAE it is agreed this could be more formally documented for professional purposes and this will be in place for 2017/18.</p> <p>Implementation 01/04/2017</p>	<p>Objectives for 2017/18 to be discussed in 121 sessions and at team level by end of April – training plan to support achievement of objectives to be drafted</p> <p>Competency frameworks currently being finalised and a development strategy drafted</p> <p>CPD planner completed in line with new IIA requirements from 01/04/17, i.e. requirement for evidence of 40hrs of CPE per annum</p>
2010 Planning	Response & action date	
<p>Plans provided to management and the Audit Committee should give more information about the areas not to be audited and the reasons. This would be assisted by further development of the audit universe and clearer explanation of how other forms of assurance are to be relied upon. There should also be</p>	<p>Clarity over the further development of the audit universe would be helpful.</p> <p>Clearer explanation of the other forms of assurance if/where available will be documented for the 2017/18 plan however there are very limited options in an</p>	<p>Audit universe updated but no further guidance was received</p> <p>Assurance for reliance purposes documented where possible</p>

<p>an audit strategy which provides a medium term view of the way in which internal audit will conduct its work, the range of techniques to be deployed and the style and level of audits.</p>	<p>organisation this size.</p> <p>I believe the way in which Internal Audit will conduct its work and the techniques/style/level are covered in the audit manual however a strategy to support the 2017/18 Plan will be formalised</p> <p>Implementation 01/04/2017</p>	<p>Strategy developed as part of 2017/18 Planning</p>
<p>2050 Coordination</p>	<p>Response & action date</p>	
<p>There is scope for more coordination with other assurance providers and more consideration of the role and impact of the second line of defence. This would include periodic meetings with external audit and other review and assurance functions such as risk management.</p>	<p>There isn't a risk management function per se. However Internal Audit are engaged (and were at the time of the EQA) in developing a more robust risk management strategy and approach, including training to the Audit Committee and Management Team.</p> <p>Periodic meetings with the external auditors can be set up.</p> <p>There are no other assurance providers from TMBC. (See further comments on assurance providers and second-line at 2010)</p> <p>Implementation 01/04/2017</p>	<p>Work has been undertaken to review and revise the previous Risk Management Strategy and Guidance, this was reported to the January 2017 Audit Committee and subsequently agreed.</p> <p>Audit have attended all SMTs to provide a briefing on the revised process and to facilitate development of a Strategic Risk Register (SRR). The SRR will be brought to the July Audit Committee for discussion.</p> <p>Further work is needed to identify any other options to coordinate functions with a revised implementation date of 30th June 2017.</p>

2110 Governance and 2120 Risk Management	Response & action date	
<p>The plans and the programme of audits up to the period of review have been mainly focused on risk and control. There has been little coverage of governance issues and risk management has not been reviewed since January 2015. I recommend that specific reviews of governance, ethics and risk management be carried out. I recognise that it is the intention to expand this area as set out in the 2016/7 plan.</p>	<p>Agreed, this is addressed in the 2016/17 Plan and will therefore have been undertaken by 31/03/17</p>	<p>Specific work on Governance and Risk Management (RM) was undertaken in 2016/17, including a review of the RM Strategy and Guidance and a consultancy review to support development of a revised Corporate Governance Framework in line with new CIPFA/SOLACE Guidance</p>
2210 Engagement Objectives	Response & action date	
<p>Overall the setting of engagement objectives and developing the scope of the audit is a consultative process with management with suitable levels of scrutiny by the CAE. Even so, in some cases it was unclear that the risks fully addressed the relevant issues. I recommend that the description of risks be more focused on the consequences of the risk materialising rather than a risk of non-compliance with a procedure.</p>	<p>Agreed, to be actioned with immediate effect for 16/17 audits</p>	<p>We still need to develop further in terms of clear links to risks in the work we do but have made risks explicit in engagement plans and revised our report structure to show risks relating to each recommendation made</p>
2320 Analysis and Evaluation	Response & action date	
<p>The process of evaluating the adequacy and effectiveness of risk mitigation is not well documented and could be improved by the adoption of a suitable template. An example has been provided to the team. Alternatively use of audit software like Teammate could provide a suitable way of assisting the process.</p>	<p>Agreed, to be actioned with immediate effect for 16/17 audits</p>	<p>In progress for 2016/17 and to be reviewed for lessons learnt for 2017/18. We continue to investigate the possibility of using Teammate or similar</p>

2450 Overall Opinions	Response & action date	
<p>The overall opinion in the annual internal audit report should cover governance, risk management and control resulting from an audit programme which addresses each of these areas. The plans for 2016/17 do provide a suitable basis for such an opinion.</p>	<p>Agreed, this is addressed in the 2016/17 Plan and will therefore be clearer in the 2016/17 Annual Report and opinion reported to the Audit Committee at its June/July meeting.</p> <p>Implementation by 31/07/2017 (dependent on committee date)</p>	<p>To be addressed in the Annual Report to the July meeting</p>

Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error / Incorrect Discount	Fraud Proven *	Reduction In Weekly Benefit	Total due to be repaid to TMBC	Increase In liability (annual amount)	No of Penalty Charges	Total £ Penalty charge
Housing	9	8	1	0	£0.00	£0.00	£0.00	0	£0.00
Council Tax Reduction	16	3	10	2	£182.63	£14,048.49	£9,748.44	3	£210.00
SPD	256	159	97	1	£720.45	£43,294.97	£37,770.00	67	£4,690.00
SPD & CTR	3	1	2	0	£11.46	£1,562.18	£0.00	1	£70.00
NNDR	2	2	0	0	£0.00	£0.00	£0.00	0	£0.00
DHP	1	1	0	0	£0.00	£0.00	£0.00	0	£0.00
Council Tax Liability	3	1	2	0	£8.83	£2,141.41	£0.00	0	£0.00
	290	175	112	3	£923.37	£61,047.05	£47,518.44	71	£4,970.00

* for cases where fraud was proven, sanctions as follows:

- £70 Penalty Under CTRS regs x 3
- 1 x SPD Caution

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT CERTIFICATION WORK 2015/16

This report summarises the outcomes from certification work carried out by Grant Thornton, our external auditors, for 2015/16.

1.1 Introduction

1.1.1 Certain claims and returns submitted by local authorities require auditor certification. For 2015/16 the only claim requiring auditor certification was the Council's claim for housing benefit subsidy of £35.9m, based on benefit granted of £36.6m.

1.1.2 Auditors are required to report the outcomes of certification work to those charged with governance which for this purpose is the Audit Committee. Key messages taken from the Certification Report 2015/16 are:

- The Council's draft and final audited claims for housing benefit subsidy were submitted within the deadlines specified by the DWP.
- Officers had taken appropriate action to implement the agreed recommendations arising from 2014/15 certification work.
- The 2015/16 claim was amended prior to certification. The aggregate impact of the amendment was to increase the amount of subsidy claimed by £12,544 and one issue was reported to DWP in a qualification letter.

1.1.3 A copy of the Certification Report 2015/16 is attached at **[Annex 1]**.

1.2 Legal Implications

1.2.1 Auditors are required to report the outcome of certification work to those charged with governance.

1.3 Financial and Value for Money Considerations

1.3.1 The final certification fee of £18,084 is the same as that notified previously by way of an indicative fee.

1.4 Risk Assessment

1.4.1 Where recommendations are made as a result of certification work they are shared and subsequent actions agreed with officers.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

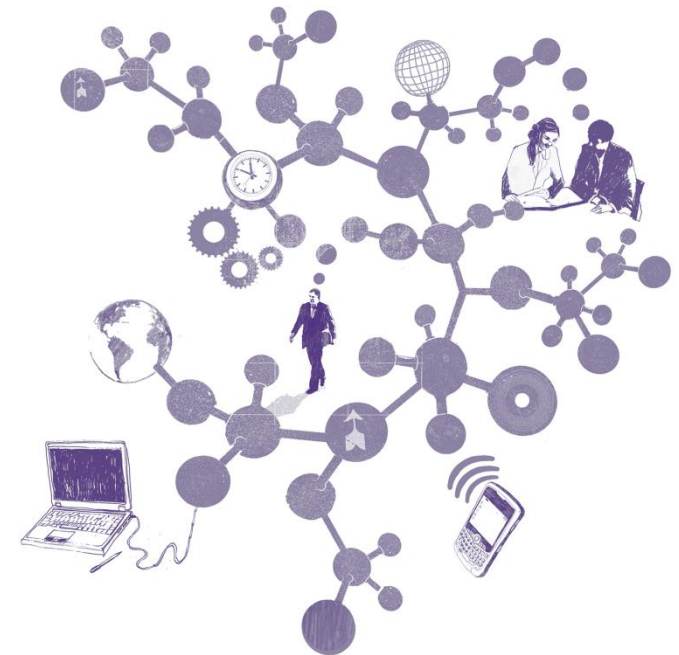
Certification report 2015/16 for Tonbridge & Malling Borough Council

Year ended 31 March 2016

February 2017

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Section 1: Summary of findings

01. Summary of findings

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Summary of findings

Introduction

Certain claims and returns submitted by local authorities require auditor certification to help confirm the authority's entitlement to funding.

For 2015/16 the only claim requiring auditor certification at Tonbridge & Malling Borough Council ('the Council') was the Council's claim for housing benefit subsidy.

Auditors are required to report the outcomes of certification work to those charged with governance. This report summarises the outcomes from our certification work on the Council's housing benefit subsidy claim for 2015/16.

Approach and context to certification

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies.

Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT (the framework used for the certification of housing benefit subsidy claims) issued by the Audit Commission in February 2015.

Our certification work has been completed using the HB COUNT framework.

In 2015/16 the Council's draft claim was for housing benefit subsidy of £35.9m, based on benefit granted of £36.6m.

Key messages

The Council's draft and final certified claims for housing benefit subsidy were submitted within the deadlines specified by the Department for Work and Pensions (DWP).

Officers had taken appropriate action to implement the agreed recommendations arising from our 2014/15 certification work.

The 2015/16 claim was amended prior to certification. The aggregate impact of the amendments was to increase the amount of subsidy claimable by £12,544.

We reported one other issue to DWP in a qualification letter.

Further information on the outcomes from our certification work is provided at Appendix A.

Certification fees

For each Council an indicative scale fee for certification work is set by PSAA. The 2015/16 indicative scale fee for the Council's housing benefit subsidy claim reported in our audit plan of March 2016 was £18,084. We will not seek a variation from PSAA to the 2015/16 indicative scale fee and our final fee will therefore be £18,084.

Completion of PSAA workbooks

Under the PSAA HBCOUNT guidance initial testing for a sample of cases is performed by the auditor. Where errors are identified from this initial testing, and there is not enough information to agree a claim amendment or assess the impact of the error across the population as a whole, then additional sample testing is performed. The HBCOUNT guidance states that this additional sample testing should be performed by the authority, using dedicated workbooks issued by PSAA and then reviewed by auditors.

We understand that historically there have been issues with running the PSAA workbooks on the Council's systems. Currently information is initially logged on spreadsheets by the Council and then reviewed and input to the workbooks by auditors. In 2015/16 this process did not work efficiently, with a number of errors in the information provided by the Council and further information having to be provided on the calculations for self-employed income. This increased the amount of audit work required.

For 2016/17 it has been agreed that where additional testing is required the Council will complete the PSAA workbooks directly, with appropriate training and support from auditors, investigating whether the workbooks can now be uploaded directly to the system, or alternatively using standalone laptops to complete the work. To support this we will agree a protocol with officers to clarify the respective roles and responsibilities of auditors and the benefits team.

Where issues arise which require additional work by auditors in 2016/17 then additional fee will be charged. The need for additional fees will be agreed prior to our commencing the work.

The way forward

We set out recommendations arising from our certification work at Appendix C.

Acknowledgements

We would like to take this opportunity to thank the Council's officers for their assistance and co-operation with our 2015/16 certification work.

Grant Thornton UK LLP
February 2017

Appendices
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Appendix A: Work performed 2015/16

Housing Benefit Subsidy Claim

Overall approach

The PSAA certification framework requires sample testing of benefit claims to confirm benefit has been awarded in accordance with regulations and correctly recorded for subsidy purposes. Two initial samples are tested (all transactions in year)

- 20 rent allowance cases
- 20 rent rebate (tenants of non-HRA properties) cases

Where errors are identified then additional testing is performed (either on a further sample of 40 cases, or on all relevant cases, depending on the number of cases where the error could have occurred) for the issue giving rise to the error.

Under the PSAA framework auditors are also required to perform sample testing to cover previous year issues and confirm that these do not affect the current year's claim.

Where the impact of errors can be quantified exactly then the claim is amended. Where the potential impact on subsidy can only be estimated or extrapolated then the issue is reported to DWP using a qualification letter.

Previous year issues

Our work on the Council's 2014/15 subsidy claim identified a number of cases with the following errors;

- rent allowances; self-employed income incorrectly calculated
- non HRA; expenditure relating to non-self-contained licensed accommodation incorrectly classified
- non HRA; LHA rate used in calculations incorrect.

Therefore under the HBCOUNT framework additional work to cover these issues was required in 2015/16.

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Appendix A: Work performed 2015/16

Housing Benefit Subsidy Claim

Outcomes from 2015/16 testing: Rent allowances

Initial testing

Our testing of the initial sample of 20 rent allowance cases for 2015/16 did not identify any errors.

Additional testing

Additional work in 2015/16 was only required in respect of previous year issues. To address these issues the calculation of self-employed income was tested for an additional sample of 40 cases. This testing identified;

- two errors leading to an underpayment of benefit. Where testing identifies that benefit has been underpaid there is no impact on subsidy as subsidy cannot be claimed on benefit that has not been awarded.
- two errors where there was no impact on benefit
- two errors resulting in an overpayment of benefit.

For the two errors leading to an overpayment of benefit the potential impact on subsidy was extrapolated and reported to DWP using a qualification letter. The net impact of the extrapolation was to move £4966 from a cell paying full subsidy to the cell for local authority overpayments (which pays nil subsidy). However, the amount of subsidy receivable for local authority overpayments also depends on the aggregate value of overpayments relative to a threshold set by DWP. After adding £4966 the total value of local authority overpayments for the Council remains below this DWP threshold, and therefore all local authority overpayments would continue to attract full subsidy.

The Council's benefits system includes a module which can calculate self-employed income using information input by assessors. Our testing indicated that in most cases this module had not been used, with assessors instead performing calculations outside of the system, e.g. on paper, and then inputting only total amounts. The paper notes were often discarded. To provide a clear trail for calculations we recommend that the benefit system module is used for all self-employed income calculations. Alternatively, if paper calculations are produced by exception, then these should always be scanned and logged on the system.

Appendix A: Work performed 2015/16

Housing Benefit Subsidy Claim

Outcomes from 2015/16 testing: Non HRA

Initial testing

Our initial testing of 20 rent rebate (tenants of non HRA properties) cases identified two cases where benefit expenditure had been incorrectly classified. However, the additional certification work required was covered by the testing performed in respect of previous year errors as below.

Additional testing

Additional work in 2015/16 was required in respect of previous year issues. To address these issues officers reviewed all non-HRA cases to check that expenditure had been correctly classified and that the correct LHA rate had been used.

This testing identified 17 cases where errors had occurred. Amendments were agreed and actioned on the Council's subsidy claim prior to certification. The net impact was to increase the amount of subsidy claimed by £12,544.

Appendix B: Fees

Claim or return	2014/15 fee	2015/16 indicative fee	2015/16 actual fee	Variance with indicative fee
	£	£	£	£
Housing benefits subsidy claim	18,600	18,084	18,084	0
Total	18,600	18,084	18,084	0

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Appendix C: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1 Page 105	Housing benefit subsidy scheme			
	Officers should consider the errors identified from certification testing and take action on any systems, training or supervisory issues to help reduce errors in future years.	Medium	Training has taken place over the previous two years. Errors found were in cases assessed prior to this time. An ongoing review of cases is taking place as part of the fraud & error reduction incentive scheme (FERIS). Recommendation 3 will be implemented and all assessment staff to receive training and instruction.	In place for the start of the 2017/18 financial year. Principal Benefit Officer.
	Benefit records for individual claimants should be amended in the current year for all errors identified from 2015/16 certification testing.	Medium	Claims will be adjusted as necessary.	By the end of the current financial year. Principal Benefit Officer
3	To provide a clear trail for calculations the benefit system module should be used for all self-employed income calculations. Alternatively, if paper calculations are produced by exception, then these should always be scanned and logged on the system.	Medium	Staff to have instructions to use the Northgate self-employed earnings boxes as the standard means of recording figures. In any cases where this may not be appropriate, emphasis will be on providing a clear audit trail of the income assessment.	By the end of the current financial year. Principal Benefit Officer.

Appendix C: Action plan

Priority

High - Significant effect on arrangements

Medium – Some effect on arrangements

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	Housing benefit subsidy scheme			
	For 2016/17 it has been agreed that where additional testing using the PSAA workbooks is required then these will be completed by the Council, with appropriate training and support from auditors. As an initial step the Council should investigate whether the PSAA workbooks can be uploaded directly to the Council's network. If this is not possible then arrangements should be made to complete work using standalone laptops.	High	Liaison with Grant Thornton necessary to establish whether workbooks can be uploaded onto the Council's network or if standalone laptops are necessary.	Prior to commencement of 2016/17 hb subsidy audit. GT auditor & Principal Benefit Officer.



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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

03 April 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON – PROGRESS REPORT AND UPDATE AND AUDIT PLAN

This report introduces two papers from our external auditors. The two papers are a Progress Report and Update and Audit Plan for the year ending 31 March 2017.

1.1 Progress Report and Update

1.1.1 This paper provides the Audit Committee with a report on progress in delivering their responsibilities as the Council's external auditors. The paper also includes a summary of Sector issues and developments that may be relevant to this Council. The paper can be found at **[Annex 1]**.

1.2 Audit Plan 2016/17

1.2.1 Our external auditors are required to prepare an Audit Plan setting out the proposed approach to the audit of the Council's financial statements. The paper identifies a number of risks which the external auditors will consider as part of the audit, none of which are specific to this Council, but applicable to local authorities more generally; and no issues have arisen from their interim work to date which I need to draw to your attention. On the VFM conclusion work, the area of focus will be the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people. The paper can be found at **[Annex 2]**.

1.3 Legal Implications

1.3.1 As set out in the documents.

1.4 Financial and Value for Money Considerations

1.4.1 As set out in the documents.

1.5 Risk Assessment

1.5.1 As set out in the documents.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

Audit Committee
Tonbridge and Malling Borough Council
Progress Report and Update
Year ended 31 March 2017

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March 2017

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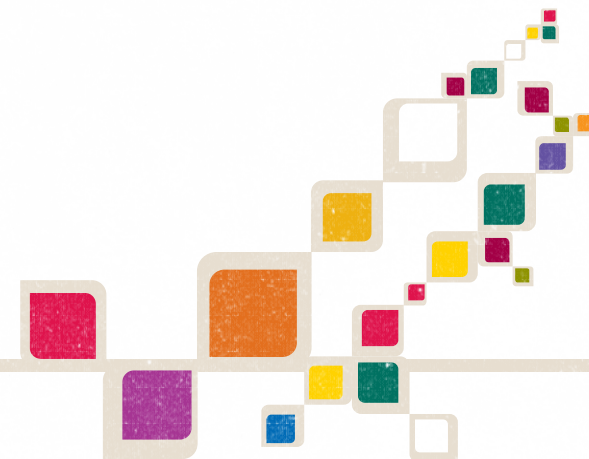
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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

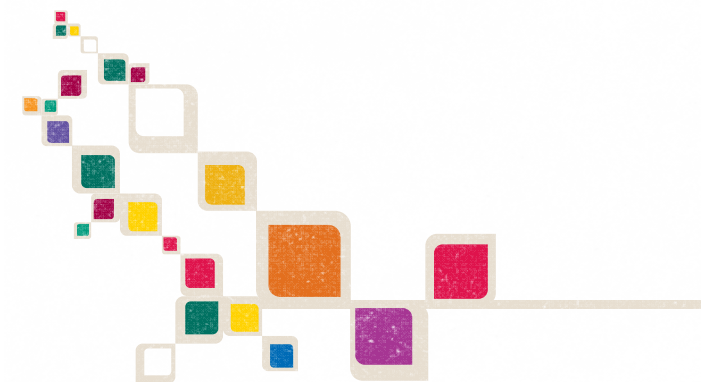
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

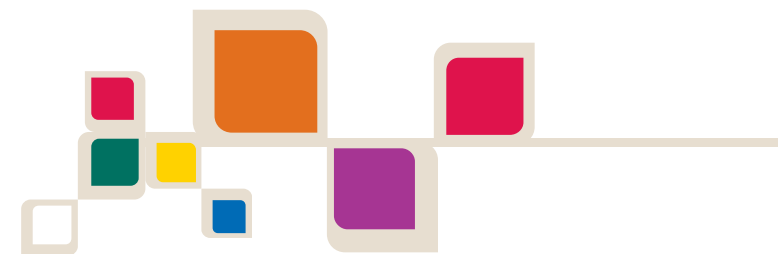
- CFO Insights – reviewing council's 2015/16 spend (December 2016); <http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Fraud risk, 'adequate procedures', and local authorities (December 2016); <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016); <http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government = transitioning successfully (December 2016); <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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.

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.

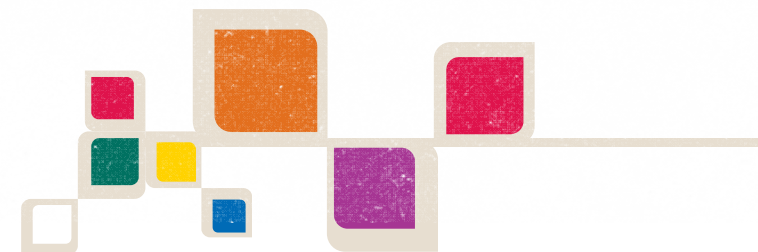


Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	yes	The 2016/17 fee letter was presented to the June 2017 audit committee.
<p>Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.</p>	April 2017	In progress	Audit plan to be presented to the audit committee on 3 April 2017
<p>Interim accounts audit Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment. 	March/April 2017	In progress	We will report the results from our interim visit in our Audit Findings Report.

Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> audit of the 2016/17 financial statements proposed opinion on the Council's accounts proposed Value for Money conclusion review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 	June 2017	Not yet due to start	<p>We are planning to complete our audit by 31st July as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	March – June 2017	In progress	<p>We have set out the result of our risk assessment and the proposed focus of our work at pages 10 to 12 of the Audit Plan.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2017.</p>

Technical Matters

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Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Sector issues and developments

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Local Government Finance Settlement

National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey *2017 State of Local Government Finance* have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax."

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

Links:

<https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018>

<http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/>

<http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/>

Pooling of LGPS

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

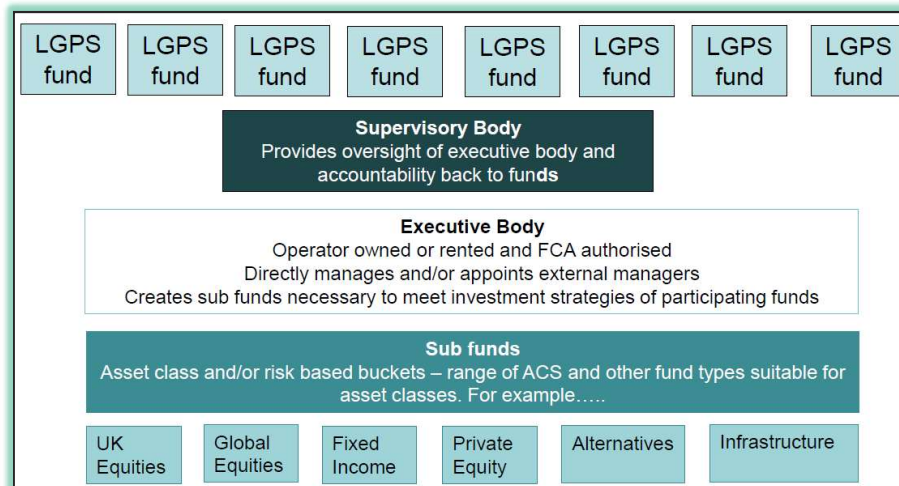
- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

Link:
<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps/>



typical structure of LGPS Pool

Fixing our broken housing market

National developments

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

“The housing market in this country is broken, and the cause is very simple: for too long, we haven’t built enough homes.”

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they’re behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

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.

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:

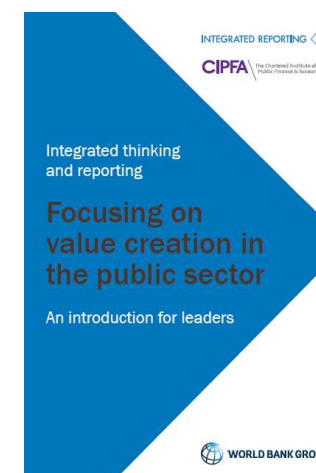
- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

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.



Grant Thornton

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Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: $250 \times £20,000 = £5,000,000$

Levy sum: $0.5\% \times = £25,000$

Allowance: $£25,000 - £15,000 = £10,000$ annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Grant Thornton update

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of “*consistency, certainty and simplicity*”.

When the proposals were originally made, the public sector was defined as “those bodies that are subject to the Freedom of Information rules”. It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Brexit

Planning can help organisations reduce the impact of Brexit

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.

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 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, especially at the moment, moves quickly.

Where does this leave the public sector?

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:

Grant Thornton update

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate>

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.



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The Audit Plan for Tonbridge and Malling Borough Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2017

13 March 2017

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Dear Members of the Audit Committee

Audit Plan for Tonbridge and Malling Borough Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Tonbridge and Malling Borough Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

Give an opinion on the Council's financial statements

-satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Sarah Ironmonger

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments		Key challenges		Financial reporting changes		
<p>Property Investment Fund</p> <p>The Council are looking at developing future revenue streams to support their Medium Term Financial Strategy. One proposed revenue stream involves the Council investing in a property investment fund.</p> <p>The Council will need to consider all options before investing to ensure they are receiving the maximum return from their investment.</p>	<p>Changes to Grants</p> <p>There are changes proposed to the New Homes Bonus grant settlement and the Revenue Support Grant is declining year on year.</p> <p>The Council will need to assess the impact to their Medium Term Financial Strategy and identify alternate revenue streams if required.</p>	<p>Autumn Statement and Spring Budget</p> <p>The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities. Increases in the funding for adult social care were also announced in the Spring Budget.</p> <p>The Council has a good track record of achieving financial targets, but recognises this is going to be even more challenging going forward.</p>	<p>Transformation Strategy</p> <p>The Council has been able to deliver efficiency savings in delivering a balanced budget for 2016/17, but savings of £1.9m have still to be identified in order to deliver a balanced budget for 2017/18 and 2018/19 onwards. The Council will need to monitor these schemes closely to ensure they deliver the savings and benefits anticipated, and identify alternative schemes if needed.</p>	<p>CIPFA Code of Practice 2016/17 (the Code)</p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p>	<p>Earlier closedown</p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p>	<p>Delivering Good Governance in Local Government Framework</p> <p>CIPFA/Solace have issued a new Framework which applies to Annual Governance Statements from 2016/17 onwards. We will ensure that the Council has appropriate arrangements in place as part of our review at year end.</p>

Our response

- We aim to complete all our substantive audit work of your financial statements by 10 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review the Council's progress in managing its responsibilities for public health and how it is working with partners, as part of our work in reaching our VFM conclusion..
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £1,253k (being 2% of gross revenue expenditure in the prior year). In the previous year, we determined materiality to be £1,253k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £62k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Tonbridge and Malling Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Tonbridge and Malling Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Tonbridge and Malling Borough Council.</p>
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work to be completed:</p> <ul style="list-style-type: none"> We will perform a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We will test expenditure entries from months 1 – 12 on a sample basis to gain assurance that the expense is valid, has been correctly treated for VAT purposes and is allocated to the correct cost centre. We will review and test year end creditor and accruals. We will carry out procedures to confirm that expenditure cut-off is materially correct and that there are no material unrecorded liabilities.
Employee remuneration	Employee remuneration accruals are understated	<p>Work to be completed:</p> <ul style="list-style-type: none"> We will perform a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We will perform trend analysis on month 1-12 payrolls. We will test a sample of payroll payments made during months 1 – 12 to gain assurance that employees have been remunerated at the correct rates. We will agree the reconciliation of payroll the system to general ledger and financial statements.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Valuation of pension fund net liability	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Heritage assets
- Assets held for sale
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

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Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 5 September 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Financial position On its current trajectory, the Council has identified a funding gap of £1.9m in their Medium Term Financial Strategy from 2016/17 to 2019/20. However a savings plan has been put in place to manage this overspend during the 3 year course of the Medium Term Financial Strategy to return the position to balance by the end of the period.</p> <p>The longer term picture also looks challenging due to the likely cessation of the Revenue Support Grant, the New Homes Bonus scheme has a 2 year life in its current format before payments reduce, along with changes to other areas such as Business Rates Retention. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council.</p>	<p>Sustainable resource deployment This links to your arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>We propose to:</p> <ul style="list-style-type: none"> review the progress against the 2016-17 financial plan up to the completion of our audit; and obtain an update on the Council's Medium Term Financial Strategy, including progress on identified and unidentified savings required in 2017/18, including discussions with Management on progress to date.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

Interim audit work planned

	Work planned	Conclusion
Internal audit	<p>We will complete a high level review of internal audit's overall arrangements.</p> <p>We will also review internal audit's work on the Council's key financial systems to date.</p>	We will report our result of our work in our Audit Findings Report
Entity level controls	<p>We will obtain an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	We will report our result of our work in our Audit Findings Report
Review of information technology controls	<p>We will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	We will report our result of our work in our Audit Findings Report
Walkthrough testing	We will complete our walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.	We will report our result of our work in our Audit Findings Report

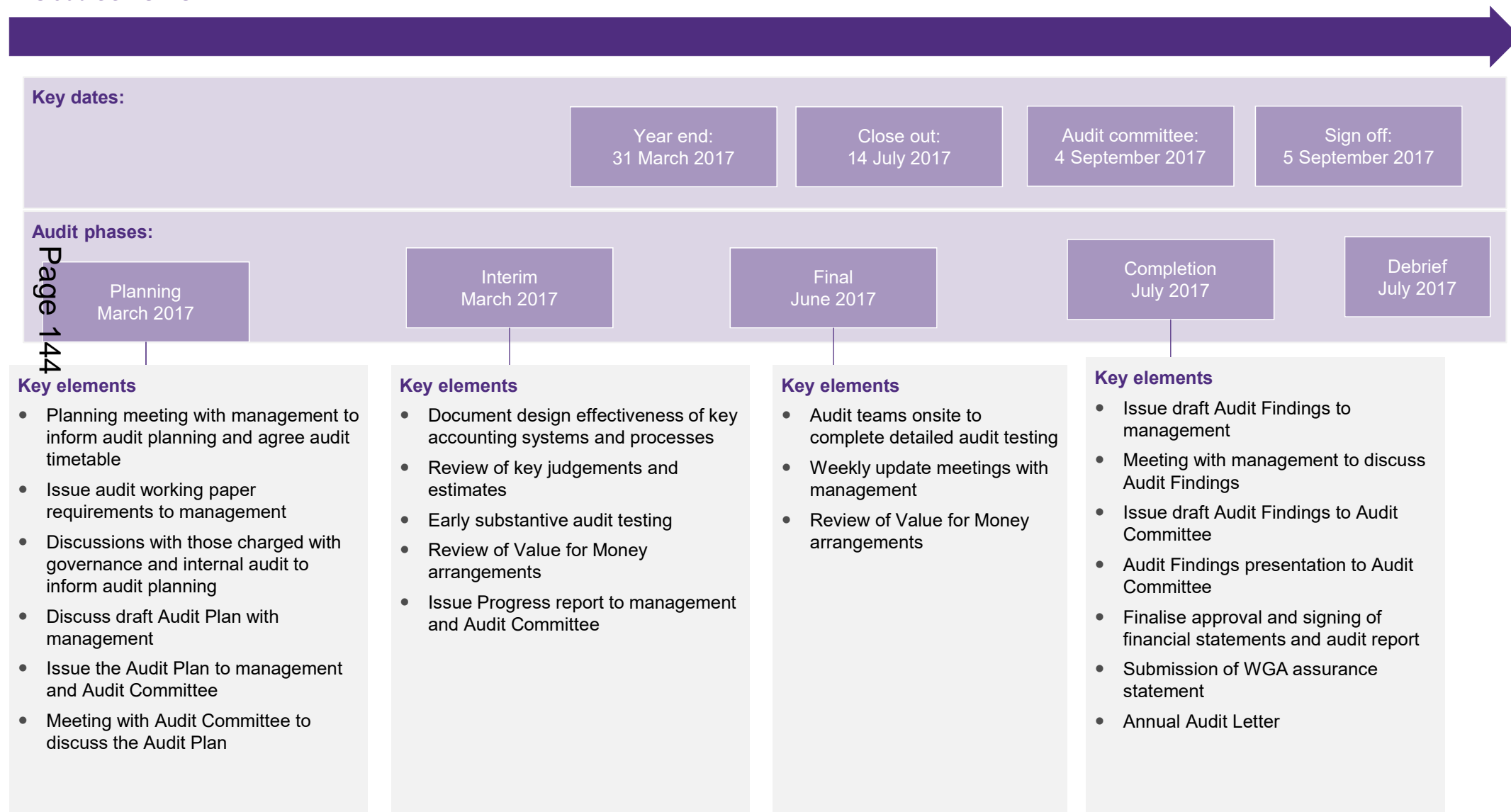
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Results of interim audit work (continued)

	Work planned	Conclusion
Journal entry controls	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	We will report our result of our work in our Audit Findings Report
Early substantive testing	We will complete early substantive testing as part of our interim visit due to commence on 20 March 2017.	We will report our result of our work in our Audit Findings Report

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	45,776
Grant Certification	13,950
Total audit fees (excluding VAT)	59,726

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

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

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Tonbridge and Malling Borough Council. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related	Nil	
Non-audit related	Nil	

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

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



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Agenda Item 13

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

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Agenda Item 14

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

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

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Agenda Item 16

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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