

TONBRIDGE & MALLING BOROUGH COUNCIL



EXECUTIVE SERVICES

Chief Executive

Julie Beilby BSc (Hons) MBA

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

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 August 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, 4th September, 2017 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

- | | | |
|----|--------------------------|-------|
| 1. | Apologies for absence | 5 - 6 |
| 2. | Declarations of interest | 7 - 8 |

3. Minutes 9 - 14

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 3 July 2017

Matters for Recommendation to the Cabinet

4. Strategic Risk Register 15 - 20
5. Treasury Management Update and Mid-Year Review 21 - 38

Decisions to be taken under Delegated Powers

6. External Auditors Report on Outcome of Audit of Statement of Accounts 2016/17 39 - 76
7. Consultation on Auditor Appointment from 2018/19 77 - 82

Matters submitted for Information

8. Internal Audit and Counter Fraud Update 83 - 104
9. Urgent Items 105 - 106

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

Matters for consideration in Private

10. Exclusion of Press and Public 107 - 108

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

PART 2 - PRIVATE

Matters submitted for Information

11. Insurance Claims History: April - July 2017 109 - 112
LGA 1972 Sch 12A Paragraph 3 – Financial or business affairs of any particular person
12. Urgent Items 113 - 114

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

MEMBERSHIP

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

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

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

This page is intentionally left blank

Apologies for absence

This page is intentionally left blank

Declarations of interest

This page is intentionally left blank

TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 3rd July, 2017

Present: Cllr V M C Branson (Chairman), Cllr T Bishop and Cllr T Edmondston-Low

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

Apologies for absence were received from Councillors M C Base, B T M Elks, S R J Jessel, Mrs F A Kemp, S C Perry and B W Walker

PART 1 - PUBLIC

AU 17/29 DECLARATIONS OF INTEREST

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

AU 17/30 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 3 April 2017 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE COUNCIL

AU 17/31 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2016/17

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken during April and May of the current financial year within the context of the national economy. The treasury management outturn position for 2016/17, reported to the Cabinet on 28 June 2017, was also presented.

The Committee was advised that the outcome of the General Election had added to market uncertainty surrounding the Brexit negotiations. The interest rate forecast provided by Capita anticipated the Bank Rate remaining at 0.25% until June 2019.

It was noted that the summary of investment performance for 2016/17 indicated that the combined performance of the Council's cash flow and core funds had bettered the revised estimate by £25,500. Investment income earned in April and May of 2017/18 was also higher than expected, exceeding the estimate for the same period by £12,050.

The report provided a commentary on long term investment including progress in implementing the Council's decision regarding investment in property funds.

RECOMMENDED: That the following be commended to the Council:

- (1) the action taken by officers in respect of treasury management activity for April and May 2017 be endorsed;
- (2) the progress being made in respect of property fund investment be noted; and
- (3) the 2016/17 outturn position be noted.
***Referred to Council**

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

AU 17/32 STRATEGIC RISK REGISTER

The report of the Management Team presented a review of the Strategic Risk Register which had been updated to align with the new Corporate Strategy. It was noted that the Register was still at a draft stage with some fine tuning required and Members were invited to comment prior to receipt of the final version in September for recommendation to the Council.

Whilst recognising that the Emergency Plan contained details of responses in the event of major disasters or terrorism incidents, Members considered that such risks should be reflected in the Strategic Risk Register to provide assurance that the necessary arrangements were in place. A number of anomalies were identified in the draft document which would be corrected in the final version. Discussion was also held into provision of training on risk management and it was suggested that a briefing for all Members be considered for the autumn.

RESOLVED: That progress to date on the Strategic Risk Register, as set out at Annex 1 to the report, be noted and feedback from Members as to the risks to be included be taken into account in the final version for recommendation to the Council.

AU 17/33 ANNUAL GOVERNANCE STATEMENT 2016/17

The report of the Director of Finance and Transformation presented the Annual Governance Statement for the year ended 31 March 2017 which was required to be certified by both the Leader of the Council and the Chief Executive to accompany the Council's Statement of Accounts 2016/17.

The Annual Governance Statement had been prepared by way of a self-assessment questionnaire and supporting evidence and was intended to demonstrate that there was a sound system of corporate governance in place throughout the organisation.

Members requested that in the interests of openness and transparency the way in which the Council operated, including committee terms of reference, be made more prominent and accessible on the website.

RESOLVED: That the Annual Governance Statement for the year ended 31 March 2017, as set out at Annex 1 to the report, be endorsed.

AU 17/34 STATEMENT OF ACCOUNTS 2016/17

The report of the Director of Finance and Transformation presented an unaudited set of Accounts for 2016/17 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. It was noted that the Accounts included the adjustments in the light of the outturn position reported to the Cabinet meeting on 28 June 2017. The Annual Governance Statement (referred to at Minute AU 17/33) accompanied the Statement of Accounts.

The officers answered questions raised by Members on various aspects of the Accounts. The Committee was reminded that responsibility for approval of the Statement of Accounts was delegated to the Audit Committee under the Council's constitutional arrangements and the external auditor's report on the outcome of the audit of Accounts was expected to be presented to the meeting on 4 September 2017.

RESOLVED: That

- (1) the Statement provided by the Director of Finance and Transformation in support of assertions made in the Statement of Responsibilities for the Statement of Accounts, as set out at Annex 2 to the report, be noted and endorsed;
- (2) the recommendations detailed at paragraph 1.5.4 of the report, following a review of the specific earmarked reserves held by the Council, be noted; and
- (3) the unaudited set of Accounts for 2016/17 be received and approved and the Chairman be authorised to sign the Accounts in the appropriate place.

AU 17/35 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

The report of the Chief Audit Executive informed the Committee of the findings of the annual review of the effectiveness of the Internal Audit function. Members were advised that the Management Team had

concluded that the opinion on the effectiveness of the Internal Audit function in place for the year 2016/17 was Good.

It was also reported that the external auditors had confirmed by email that reliance could be placed on the work of Internal Audit.

RESOLVED: That on the basis of the findings of the review, the opinion that the effectiveness of Internal Audit during 2016/17 was Good be endorsed.

MATTERS SUBMITTED FOR INFORMATION

AU 17/36 OPINION OF CHIEF AUDIT EXECUTIVE ON INTERNAL CONTROL ENVIRONMENT, TOGETHER WITH ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR 2016/17

The report informed the Committee of the opinion of the Chief Audit Executive on the Council's internal control environment together with the Internal Audit work completed during 2016/17 to support that opinion. Reference was made to the way in which resources had been allocated and the outcome against performance measures. Members noted the opinion that the system of internal control adequately contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives in 2016/17.

The report also informed the Committee of the work carried out by the Counter Fraud function in 2016/17 including fraud awareness training to a number of Services.

Members commented on the outcome of a number of the internal audit assurance reviews as set out at Annex 1 to the report. With reference to that on Safeguarding, it was noted that a number of councillors had attended training but there was no evidence to confirm that Members had read the Safeguarding Policy. Officers undertook to pursue this matter.

RESOLVED: That the report be received and noted and a letter of appreciation be sent to the Internal Audit and Fraud Team for all their work.

AU 17/37 WORK PROGRAMME AND SCALES OF FEES 2017/18

The report of the Director of Finance and Transformation advised that following consultation, Public Sector Appointments Limited (PSAA) had published the Work Programme and Scales of Fees for the audit of the 2017/18 accounts. It was noted that there were no changes to the overall work programme and the 2017/18 scales remained at the same level as those applicable in 2016/17. Indicative fees for 2017/18 housing benefit subsidy certification work would be based on the final 2015/16 fees.

An update was given on the process for appointment of auditors from 2018/19 under the sector-led approach which was expected to yield a reduction in audit fees over the current level.

RESOLVED: That report be received and noted.

AU 17/38 AUDIT FEE LETTER 2017/18

The Director of Finance and Transformation reported receipt of the Audit Fee Letter for 2017/18 from Grant Thornton which gave details of the Council's audit fee of £45,776 (the same as for 2016/17) together with the scope and timing of audit work and the audit team. Indicative fees for housing benefit subsidy certification work would be based on the final 2015/16 certification fees.

RESOLVED: That the report be received and noted.

AU 17/39 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.44 pm

This page is intentionally left blank

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 2017

Report of the Management Team

Part 1- Public

Matters for Recommendation to Council

1 STRATEGIC RISK REGISTER

This report asks Members to review the updated Strategic Risk Register for recommendation to Council.

1.1 Introduction

- 1.1.1 The Risk Management Strategy of the Council is to adopt best practices in the identification, evaluation, and cost-effective control of risks. This is intended to ensure that risks are reduced to an acceptable level or, where reasonable eliminated, thereby safeguarding the Council's assets, employees and customers and the delivery of services to the local community. Examples of risk include budget deficit, cyber/data loss, environmental and reputational.
- 1.1.2 The Council endeavours to pursue a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements, i.e. Constitution, Procedural Rules, etc. These arrangements will serve to ensure that the Council does not expose itself to risks above an acceptable level.

1.2 Strategic Risk Register

- 1.2.1 The Strategic Risk Register [**Annex 1**] has been reviewed and updated to align with the new Corporate Strategy. The Register is now a final version following discussion at the July Audit Committee meeting (amendments have been made based on comments at that meeting) and further discussions with Management Team. It is therefore now brought to the Committee for recommendation to Council.
- 1.2.2 As risk changes this is considered to be a live document that will be updated as and when required with periodic reporting to this Committee for information together with a more formal annual review.

1.3 Legal Implications

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

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

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

1.6 Equality Impact Assessment

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

1.7 Recommendations

- 1.7.1 Members are asked to **review** the Strategic Risk Register for recommendation to Council.

Background papers:

contact: Samantha Buckland

Nil

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
1	Safeguarding and PREVENT	R, S	Significant reputational impact should a child, young person or vulnerable adult come to harm, including radicalisation and child sex exploitation, and TMBC are unable to demonstrate appropriate processes were in place.	01/04/2017	The responsibility for safeguarding has recently moved to the Chief Executive, rather than an individual service and a review implemented. An Audit review was commissioned which identified progress to date. Positive direction of travel noted in majority of areas (policy, training, engagement with other agencies). Areas of weakness identified and an action plan is being developed to address areas/necessary actions. Corporate Safeguarding Policy, DBS checking, Staffing/Member training. PREVENT training for staff. Attendance at K&M Adults Safeguarding Board, Local Children's Partnership Group. Training delivered to all Hackney Carriage and Private Hire drivers.	4	4	16	12	Posts eligible for DBS checks being reviewed by Legal Services and a Central recording system being commissioned. Audit to be reviewed early in 2018.	Safeguarding Policy	Chief Executive	Mar-18
2	Financial position/budget deficit	F, R	Financially unstable organisation. Failure to deliver a balanced budget, detrimental impact on quality of service, increased intervention. Failure to maximise New Homes Bonus.	01/04/2017	Medium Term Financial Strategy (MTFS) in place and reviewed regularly. Annual review of Treasury Management and Investments strategies. Effective budget setting process and financial monitoring in place; Robustness tested and adequacy of reserves. External Audit review MTFS. Savings & Transformation Strategy (S&TS). External audit of Accounts. Financial Procedure Rules. Monitor taxbase.	4	3	12	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation	Nov-17
3	Brexit Impact and Economic Stability	F	Financial impact and effect on the economy as well as uncertainty around current EU legislation, i.e. what replaces it, could have a significant financial impact and lead to legislative changes impacting on finance and resources.	01/04/2017	Regular review of MTFS. Kent-wide working to understand, plan for and react to pressures. Regular review of Treasury Management and Investment strategies. Economic factors reflected in MTFS.	4	3	12	12	Ongoing monitoring of landscape and consideration of issues arising.	N/A - external risk.	Director of Finance and Transformation	As required
4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	Failure to meet objectives and/or make savings, including those arising from the planned West Kent Waste Partnership. Impact on quality of service, budget overspends, salami slicing, etc. staff motivation impacted and increased risk of fraud or error.	01/04/2017	Savings and Transformation Strategy reviewed and updated. Corporate Strategy reviewed and updated. Regular update reports to MT and Members Annual review of Savings & Transformation Strategy.	3	4	12	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected. Commissioning of in service reviews via MT to identify potential areas of transformation and savings. Strategic asset management review to deliver new income.	Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities. Taking a business like approach.	Chief Executive / Director of Finance and Transformation	Nov-17

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
5	Local Plan	F, R	Lack of sound legal footing for Plan leading to risk of failure at Examination. Risk of challenge from not meeting identified development needs. Reputational risk and widespread public concern arising from decision making on strategic development. Lack of infrastructure to support future development.	01/04/2017	Audit of Local Plan process in hand. Update and review of evidence base underway in advance of Regulation 19 consultation. Specialist consultants engaged where appropriate and counsel briefed. Duty to Cooperate discussions and audit in hand. Clear explanation of local plan process and requirement to Members and through consultation with communities. Liaison with service and infrastructure providers.	4	3	12	9	Further refinement of evidence and narrowing down of sites to address development needs. Liaison with adjoining authorities and other agencies. Clear communications strategy to enable public understanding of proposals.	Local Plan assists in economic growth, delivering the supply of future housing and addressing affordability. Procedures set by National Government	Director of Planning, Housing and Environmental Health	May-18
6	Organisational development inc staff recruitment and retention/skills mix	F, R, S	Lack of resources or the right skills to deliver required outcomes, loss of key professionals/senior officers due to pay constraints and pressures, reduced staff morale and quality of work, leading to financial loss, reputational damage and detrimental impact on staff wellbeing.	01/04/2017	Review of staff resources and skills via service reviews. Organisational structure review as part of S&TS to achieve efficiency, coordinated service delivery and reflect changing legislative and policy requirements and priorities.	4	4	16	12	Succession planning Develop further skills and expertise through strategies such as shared services and specialist Commissioning. Engagement of external consultants and specialists. Resilience and rationalisation of existing structures. Further discussions to be undertaken by MT to agree strategies and resultant actions for recruitment and retention.	HR Strategy Savings and Transformation Strategy	Chief Executive	Jun-18
7	Health and Safety	F, R, S	Significant reputational impact should a service user, officer, member or contractor come to harm and TMBC are unable to demonstrate appropriate processes were in place (could be merged with safeguarding although arguably a different thing).	01/04/2017	Health and Safety Policy review. Lone working policy and service based practices to be continuously monitored. Item on SMT agendas Staff involved in JECC (supported by Members) Ongoing review undertaken to react to potential key risk areas Organisational learning and response to national events	3	4	12	12	Further embedding and dissemination of good practice through staff briefing	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health	Sep-18
8	Compliance with legislation inc new GDPR requirements	F, R	Failure to meet legislative requirements or statutory obligations may result in financial penalties and/or damage to the Council's reputation.	01/04/2017	Nominated Senior Information Risk Officer Compliance/legal assessment of decisions included in all Board reports Constitution General Data Protection Regulation requirements to be addressed by Information Governance Group CPD and professional monitoring Corporate Governance and GDPR audits Legal involvement and sign-off of key projects and involvement in governance groups	3	4	12	8	Continued dissemination of new legislative requirements. Officers to ensure maintenance of professional training requirements	Need to ensure that all 7 key themes of the Corporate Strategy are delivered in lawful manner.	Director of Central Services and Monitoring Officer	Jul-18
9	Cyber security	F, R	Loss of data and legislative breach, leading to financial penalties and reputational impact.	01/04/2017	IT Security Policy. Network Security measures (firewall, access level controls). Consideration of cyber insurance. Creation of Information Governance Group to oversee and manage risks	4	4	16	12	Procurement of cyber security "recovery" contract via Kent Connects. Prioritisation of resources (financial and human) to ensure that priority is given to relevant updates etc. Cyber awareness training to be finalised and rolled out to all staff.	IT Strategy	Director of Finance and Transformation	Nov-17
10	IT Infrastructure	F, R	Failure to adequately invest resulting in inability to keep pace with technological change, leading to systems that are not fit for purpose to meet organisational need.	01/04/2017	IT Strategy and Action plans reviewed and updated. Invest to Save opportunities and funding.	4	4	16	12	Commitment to produce new IT Strategy for presentation into Members Autumn 2017. Linkage with MTFS and Savings and Transformation Strategy. Development of virtualisation project to enable efficient and effective ways of working. Review and upgrade of data quality within systems to ensure that improvements and efficiencies can be achieved.	IT Strategy	Director of Finance and Transformation	Jan-18

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
11	Elections	R	Failure to comply with legislation, miscounts and significant reputational impact.	01/04/2017	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress. A temporary issue has arisen with the election Manager being on long term sick leave. Mitigation includes bringing in experienced external staff, to work alongside election office and RO / DRO's. Additional admin and project management skills also brought into election planning team.	2	4	8	8	Broadening of staff skills and experience to build resilience	Statutory requirement	Chief Executive	As required
12	Business Continuity and Emergency Planning	F, R, S	Failure to provide statutory service or meet residents' needs resulting in additional costs, risk of harm and reputational impact. Impact/pressures on services and resources. Failure to ensure proper safeguards to prevent or to respond adequately to a significant disaster/event e.g. terrorist attack at a large scale public event or fire.	01/04/2017	Business Continuity Plan inc Corporate (BC) Risk Register, Disaster Recovery Plan, Inter-Authority Agreement, increased resilience through Mutual Aid and Kent Resilience Team (Please see Business Continuity Plan and Corporate Risk Register for more detail).	3	4	12	12	Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis. Members of Management Team undertaking MAGIC training on an annual basis. Business Continuity working group established to review and update existing Plan. Updated plan to be considered by Management Team and tested by a training exercise.	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services	Jul-18
13	Devolution	F, R, S	Uncertainty about future operating models and changes / opportunities in responsibilities or service provision leading to financial pressures, impact on quality of services, reputational damage.	01/04/2017	Continual scanning of national / regional and Kent wide agenda by CE / Corporate Services manager. Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings	3	3	9	9	N/A	External risk/national issue	Chief Executive	As required
14	Partnerships inc shared services	F, R, S	Reliance on partners to deliver key services. Could include specific partnership or shared service models such as the Leisure Trust and Revenues and Benefits and risks around service delivery and impact on staff morale / retention if base moves from TMBC . Potential resistance to shared services / partnerships impacting on ability to deliver Savings & Transformation Strategy.	01/04/2017	Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate. Good communication with staff.	3	3	9	9	N/A	Savings and Transformation Strategy	Chief Executive	As required
15	Welfare reform inc Housing need	F, R, S	Safeguarding impact on TMBC residents due to reduction in benefits, increase in applications for DHP, etc. Failure to adequately understand and meet housing needs and return unsuitable properties to use leading to increase in homelessness or occupation of unsuitable homes. Financial impact of increased emergency accommodation and failure to maximise new homes bonus.	01/04/2017	Cross sector working (e.g. welfare reform group) to identify issues and solution. Providing advice to residents on welfare and housing issues, or signposting to relevant providers. Working with partners to identify land and funding opportunities. Working with Registered Provider Partners to ensure needs of residents are being met. Working with owners to bring long term empty properties back into use. New initiatives for Temporary Accommodation. Review implications for new Homeless Reduction Act requirements. Concessionary charges for key services EQIA assessment of key decisions included in all Board reports.	4	3	12	9	Prepare for impact of further roll out of Universal Credit by learning from other areas earlier in the programme. Consideration of review of housing service to meet the needs following Housing legislative changes.	Promoting Fairness - acting transparently at all times and being accountable for what we do, and promoting equality of opportunities. Embracing Effective Partnership Working - achieving more by working and engaging effectively with a wide range of local partners from the private, public, voluntary and community sectors.	Director of Finance and Transformation/ Director of Planning, Housing and Environmental Health	Nov-17
16	Political factors including stability of political leadership and decision making	F, R	Decisions required to achieve objectives including corporate strategy and savings and transformation may not be made and therefore required savings not achieved.	01/04/2017	Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy. Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS.	3	3	9	9	Member briefings and training sessions.	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive	As required

No	Risk Title	Risk Type	Consequences	Date identified	Current Mitigation	Likelihood Score	Impact score	Overall risk score	Desired risk score	Actions required	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
17	Flooding	F, R, S	Impact on resources to support emergency planning, financial impact due to damage, loss of resources, etc. Residents and staff put at risk of harm. Impact on key flood risk areas - Tonbridge, Hildenborough, East Peckham and Aylesford.	01/04/2017	Working with partners (EA/KCC/LEP) to secure funding and implement flood defence schemes which will reduce risk of future flooding.	3	4	12	12	Funding committed to assist in implementation of flood defence works including increasing capacity of Leigh Flood Storage. Ongoing support of Leigh FSA and involvement with Medway catchment partnerships. Reduction of risk dependent on funding and implementation of projects therefore longer term.	Emergency Plan Civil Contingencies Act 2004 Kent Emergency Response Framework West Kent Partnership and Medway Catchment Partnership	Director of Street Scene, Leisure & Technical Services	Mar-18

Key

F Financial

R Reputational

S Health and Safety inc safeguarding

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 2017

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Cabinet – Council Decision

1 TREASURY MANAGEMENT UPDATE AND MID-YEAR REVIEW

The report provides an update on treasury management activity undertaken during April to July of the current financial year. A mid-year review of the Treasury Management and Annual Investment Strategy for 2017/18 is also included in this report.

1.1 Introduction

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

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

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

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

- An economic update and revised interest rate forecast.
- Investment performance for April to July of the 2017/18 financial year including recent benchmarking data.
- Compliance with Treasury and Prudential Limits for 2017/18.
- Long term investment update.
- A review of the risk parameters contained in the 2017/18 Annual Investment Strategy.

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. GDP was forecast at 2.0% for 2016/17, 1.8% for 2017/18 (up from 1.3% forecast last autumn), 1.6% for 2018/19 and rising back to 2.0% in 2021/22. The Consumer Price Index forecast was 1.0% for 2016/17, rising to 2.6% in 2017/18 and falling back to 2.0% in 2019/20.
- 1.2.3 Since the spring budget, CPI has risen to 2.9% for the 12 months to May 2017, its highest reading in four years. Although CPI dropped to 2.6% for the 12 months ending July some economists expect inflation to increase again as a result of the falling pound causing the cost of imported goods to rise. RPI for the 12 months to July was 3.6%.
- 1.2.4 Unemployment fell to a 42 year low of 4.5% in July. Whilst positive news, average weekly earnings after adjusting for inflation fell by 0.7%.
- 1.2.5 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 (post the Brexit referendum and the August 2016 rate cut) that a further 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. The August meeting saw two members vote for an increase.

1.2.6 At the Bank of England's August meeting the scale of the Term Funding Scheme (provision of cheap finance to banks introduced in August 2016) was increased from £100bn to £115bn. The February 2018 end date for the scheme was also confirmed.

1.2.7 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. Thus far in 2017 the Fed Rate has been increased by a further 0.25% in March and again in June and now stands at 1.25%. Growth accelerated to 2.6% in the 12 months to June 2017 (compares with 1.7% for the UK).

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, the Council's treasury advisor, provided an updated forecast in August 2017. The forecast anticipates the Bank Rate remaining at 0.25% until June 2019.

Rate	Now	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.75	0.75
3 mth LIBID	0.19	0.30	0.30	0.30	0.30	0.30	0.40	0.50	0.60	0.70	0.80	0.90
6 mth LIBID	0.33	0.40	0.40	0.40	0.40	0.40	0.50	0.60	0.70	0.80	0.90	1.00
12 mth LIBID	0.54	0.60	0.70	0.70	0.80	0.80	0.90	1.00	1.10	1.20	1.30	1.40
25yr PWLB	2.60	2.80	2.90	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	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 The Council's investments are derived from cash flow surpluses, core cash and other long term cash balances.

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 2017/18 cash flow surpluses have averaged £12.3m.

1.4.4 The Authority also has £22m 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 also includes some £8m to meet business rate appeals which are expected to be resolved in 2017/18 and 2018/19.

- 1.4.5 The Council's long term cash balances were reviewed autumn 2017. The review concluded that up to £2m of the Council's existing cash balances and any 'new money' derived from the sale of assets could be applied to a long term investment. Of the alternatives, property funds were considered best suited to meet the Council's more immediate funding needs. Property fund investments of £2m are included in the table below and discussed in greater detail later in the report (Section 1.7).
- 1.4.6 A full list of investments held on 31 July 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 31 July 2017.

	Funds invested on 31 July 2017	Average duration to maturity	Weighted average rate of return	Interest / dividends earned to 31 July 2017	Annualised return	LIBID benchmark (average from 1 April 2017)
	£m	Days	%	£	%	%
Cash flow	10.1	66	0.49	17,150	0.42	0.11 (7 Day)
Core cash	22.0	193	0.66	48,950	0.67	0.19 (3 Mth)
Sub-total	32.1	153	0.60	66,100	0.58	0.16 (Ave)
Property funds	2.0			-	-	
Total	34.1			-	-	

- 1.4.7 Interest on cash flow and core cash balances of £66,100 to the end of July is £24,150 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 42 basis points. The additional income is due primarily to the higher core cash balance attributed to business rate appeal provisions.
- 1.4.8 The slowing economy and likelihood that the Bank Rate won't rise for some time to come has resulted in bank offers falling in recent months. Nevertheless, income is expected to continue above budget on a monthly basis albeit at a slower pace as the year progresses. Income for the year as a whole is likely to exceed budget by some £50,000.

1.4.9 Property fund investments of £2m were placed at the end of June / beginning of July 2017. A further £1m is expected to be placed by the end of September. Dividends from property funds are distributed on a quarterly basis. The next distribution is due at the end of September 2017. Any dividends received will be in addition to the current year budget provision.

1.5 Benchmarking

1.5.1 The Council takes advantage of Capita's benchmarking service which enables performance on cash flow and core cash returns to be gauged against Capita's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. At 30 June 2017, our return at 0.62% (purple diamond) was above the local authority average of 0.50%. Based on the Council's exposure to credit / duration risk that return was also above Capita's predicted return (above the upper boundary indicated by the green diagonal line). The Council's risk exposure, whilst above average, was not excessive relative to others.

1.6 Compliance with the Treasury Management and Annual Investment Strategy

1.6.1 Throughout the period April to July 2017 all of the requirements contained in the 2017/18 Treasury Management and Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit ratings; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April to July 2017.

1.6.2 In addition, the Council has operated within the treasury limits and prudential indicators set out in the 2017/18 Annual Investment Strategy and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **[Annex 4]** to this report.

1.7 Long Term Investment Update

1.7.1 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.

1.7.2 There are numerous property funds 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 were engaged to assist with the detailed analysis required to identify the most appropriate funds to suit the Council's needs. That assistance included analysis of: fund investment strategies; performance; portfolio composition; liquidity risk and fund management fees.

- 1.7.3 The analysis produced a shortlist of four funds who were invited to attend an interview at the Council's offices in late May. The interviews with fund managers provided the opportunity to probe in more detail their differing investment strategies and portfolio mix. The process culminated in three funds being selected for immediate investment.
- 1.7.4 Of the Council's existing cash balances £2m has been identified for long term investment and is to be applied to investment in property funds. A further £1m anticipated from the disposal of existing property assets is also being applied now, bringing the total available for investment to £3m. Applications have been submitted and accepted by each of the: Local Authorities' Property Fund; Hermes Property Unit Trust and the Lothbury Property Trust. Investment is to be diversified across the three funds to ensure, as far as is possible, stability of annual income and capital growth over time.
- 1.7.5 At the end of July 2017, £1m has been invested in the Local Authorities' Property Fund (placed June 29) and £1m invested in the Lothbury Property Trust (placed July 6). A further £1m has been earmarked for the purchase of units in the Hermes Property Unit Trust. The timing of this final investment is dependent on the fund issuing new primary units (expected August / September).
- 1.7.6 In setting the budget for the current financial year no income from property funds was anticipated. Based on recent performance by the funds and subject to the timing of the Hermes investment, net income for 2017/18 is likely to be in the region of £70,000 (£77,500 dividends less a one-off addition to treasury management consultancy fees of £7,500).

1.8 Review of Risk Parameters

- 1.8.1 Members will recall the detailed consideration that was given to the 2017/18 Treasury Management and Annual Investment Strategy at the January 2017 meeting of the Audit Committee. The strategy includes the parameters that aim to limit the Council's exposure to investment risks by requiring investments to be placed with highly credit rated institutions and that those investments are diversified across a range of counterparties. More specifically the 2017/18 Strategy requires:
- Counterparties must be regulated by a Sovereign rated AA- or better as recognised by each of the three main rating agencies (Fitch, Moody's or Standard & Poor's).
 - Whilst 100% of funds can be invested in the UK, exposure to non-UK banks is restricted to no more than 20% of funds per Sovereign.

- Exposure to individual counterparties / groups of related counterparty must not exceed 20% of funds (25% of funds for part state owned UK Banks).
- In selecting suitable counterparties the Council has adopted Capita's credit worthiness methodology. The methodology combines the output from all three credit rating agencies including credit watches / outlooks and credit default swap data to assign a durational band to a financial institution (100 days, 6 months, 12 months, 5 years, etc.). At the time of placing an investment the financial institution must be assigned a durational band of at least 100 days. This broadly equates to a minimum long term credit rating of Fitch A- (high) and a short term credit rating of Fitch F1 (strong).
- The duration of an investment in a foreign bank must not exceed Capita's recommendation. For UK financial institutions Capita's duration recommendation can be enhanced by up to six months subject to the combined duration (Capita recommendation plus the enhancement) not exceeding 12 months. Where duration exceeds Capita's recommendation by more than three months, the institution's CDS must be below average at the time the investment is placed and exposure in the extended duration limited to 10% of funds.
- Money Market funds should be rated Fitch AAmmf or equivalent and exposure limited to no more than 20% per fund.
- Enhanced Money Funds should be rated AAA and exposure limited to no more than 10% per fund and 20% to all such funds.
- Exposure to non-credit rated property funds limited to 20% per fund and 40% to all such funds.

1.8.2 The returns being offered by financial institution vary significantly one to another and across all durations. Whilst scope is limited from an income generation perspective there are a sufficient number of creditworthy institutions available to the Council to ensure an appropriate level of diversification. In undertaking this review **no changes to the current approved risk parameters are proposed.**

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 from cash flow and core cash at the end of July 2017 (month four of the financial year) is £24,150 better than budget for the same period.

Income for the 2017/18 financial year as a whole is likely to exceed budget by some £50,000.

- 1.10.2 No provision was included in the current year budget for income from property funds. Based on recent performance and subject to the timing of the final investment with the Hermes Property Unit Trust net income for the year as a whole is expected to be in the region of £70,000.
- 1.10.3 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.
- 1.10.4 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.
- 1.10.5 Whilst the annual income stream from a property fund exhibits stability (circa 4% 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. To avoid crystalizing a loss duration may need to be extended. As a consequence the duration of a property based investment cannot be determined with certainty.
- 1.10.6 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped overtime through capital appreciation.
- 1.10.7 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.

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 April to July 2017.
- 2) Note the progress made in respect of property fund investments.
- 3) Retain the existing parameters intended to limit the Council's exposure to investment risks.

Background papers:

contact: Mike Withey

Capita interest rate forecast (August 2017)

Capita benchmarking data (June 2017)

Sharon Shelton

Director of Finance and Transformation

This page is intentionally left blank

Investment Summary as at 31 July 2017

Counterparty	Sovereign	Fitch Credit rating		Capita Suggested Post CDS Duration Limit	Investment					Instrument type	Cash Flow £	Core Fund £	Property Funds £	
		Long Term	Short Term		Start Date	End Date	Duration	Amount Invested £	Return %					Proportion of total %
Bank of Scotland	UK	A+	F1	6 months	23/03/2017	23/03/2018	12 months	500,000	0.80%		Fixed Term		500,000	
Bank of Scotland	UK	A+	F1	6 months	25/07/2017	25/07/2018	12 months	1,000,000	0.65%		Fixed Term		1,000,000	
Bank of Scotland Total								1,500,000		4.40%				
Barclays Bank	UK	A	F1	6 months	30/03/2017	21/03/2018	12 months	1,000,000	0.86%		CD	1,000,000		
Barclays Bank	UK	A	F1	6 months	11/05/2017	27/04/2018	12 months	1,000,000	0.81%		CD		1,000,000	
Barclays Bank	UK	A	F1	6 months	12/05/2017	12/02/2018	9 months	2,000,000	0.51%		Fixed Term		2,000,000	
Barclays Bank	UK	A	F1	6 months	25/07/2017	25/05/2018	10 months	1,000,000	0.51%		Fixed Term		1,000,000	
Barclays Bank Total								5,000,000		14.65%				
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	31/07/2017	01/08/2017	Overnight	3,915,000	0.27%		Call	3,915,000		
BNP Paribas MMF Total								3,915,000		11.47%				
Goldman Sachs Int'l Bank	UK	A	F1	6 months	20/12/2016	20/09/2017	9 months	1,000,000	0.76%		Fixed Term		1,000,000	
Goldman Sachs Int'l Bank	UK	A	F1	6 months	01/06/2017	01/03/2018	9 months	2,000,000	0.73%		Fixed Term	2,000,000		
Goldman Sachs Int'l Bank	UK	A	F1	6 months	21/06/2017	21/03/2018	9 months	2,000,000	0.79%		Fixed Term		2,000,000	
Goldman Sachs Int'l Bank Total								5,000,000		14.65%				
Lloyds Bank	UK	A+	F1	6 months	25/01/2017	21/10/2017	9 months	1,000,000	0.70%		Fixed Term		1,000,000	
Lloyds Bank	UK	A+	F1	6 months	23/03/2017	23/03/2018	12 months	500,000	0.80%		Fixed Term		500,000	
Lloyds Bank	UK	A+	F1	6 months	25/07/2017	25/07/2018	12 months	1,000,000	0.65%		Fixed Term		1,000,000	
Lloyds Bank Total								2,500,000		7.33%				
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	29/06/2017	n/a	n/a	1,000,000	4.32%		n/a			1,000,000
Local Authorities' Property Fund								1,000,000		2.93%				
Lothbury Property Trust	n/a	n/a	n/a	n/a	06/07/2017	n/a	n/a	1,000,000	To follow		n/a			1,000,000
Lothbury Property Trust								1,000,000		2.93%				
NatWest Deposit Account	UK	BBB+	F2	12 months	31/07/2017	01/08/2017	Overnight	214,000	0.01%		Call	214,000		
National Westminster Bank Total								214,000		0.63%				
Royal Bank of Scotland	UK	BBB+	F2	12 months	28/03/2017	27/03/2018	12 months	2,000,000	0.73%		CD		2,000,000	
Royal Bank of Scotland	UK	BBB+	F2	12 months	28/06/2017	27/06/2018	12 months	1,000,000	0.66%		CD		1,000,000	
Royal Bank of Scotland	UK	BBB+	F2	12 months	25/07/2017	29/06/2018	11 months	1,000,000	0.61%		CD		1,000,000	
Royal Bank of Scotland Total								4,000,000		11.72%				
Santander Deposit Account	UK	A	F1	6 months	28/07/2017	31/07/2017	Overnight	6,000,000	0.55%		Call	3,000,000	3,000,000	
Santander UK Plc Total								6,000,000		17.58%				
Standard Chartered Bank	UK	A+	F1	6 months	16/02/2017	16/11/2017	9 months	2,000,000	0.76%		Fixed Term		2,000,000	
Standard Chartered Bank	UK	A+	F1	6 months	27/04/2017	26/01/2018	9 months	2,000,000	0.54%		Fixed Term		2,000,000	
Standard Chartered Bank Total								4,000,000		11.72%				
Total invested								34,129,000		100.00%		10,129,000	22,000,000	2,000,000

Number of investments	23	Average investment value £			1,484,000
Number of counter parties	11	Average counter party investment £			3,103,000
Group exposures:		Core £	Cash £	Combined £	%
RBS + National Westminster (UK Nationalised 25%)		4,000,000	214,000	4,214,000	12.35
Bank of Scotland + Lloyds (20%)		4,000,000	-	4,000,000	11.72
Property Funds Total			£	%	5.86
			2,000,000		

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

Notes:

CD = Certificate of Deposit
Property Fund returns are indicative only and based on available data for the last 12 months.

This page is intentionally left blank

Tonbridge and Malling Borough Council Lending List

Checked against Capita Duration Matrix dated 28/07/17									
Minimum investment criteria is Capita Green (100 days) Duration Band (entry point broadly equates to Fitch A-, F1 unless UK 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	£3m	£3m	£6m	100 days	100 days
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	12 months	12 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 RBS £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 £7.6m)	UK	AA	BBB+	F2	£3.6m	£4m	£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 or six months if CDS is below average subject to a maximum combined duration of 12 months.

[3] UK 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	£6m	-	£6m
BNP Paribas	-	-	AAAm	£6m	-	£6m
Goldman Sachs	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Deutsche Fund	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Standard Life (Ignis)	-	AAmmf	AAAm	£6m	-	£6m
Morgan Stanley	AAA-mf	AAmmf	AAAm	£6m	-	£6m
Prime Rate	-	AAmmf	AAAm	£6m	-	£6m
Insight Liquidity Group limit for IL and ILP of £6m	-	AAmmf	AAAm	£6m	-	£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

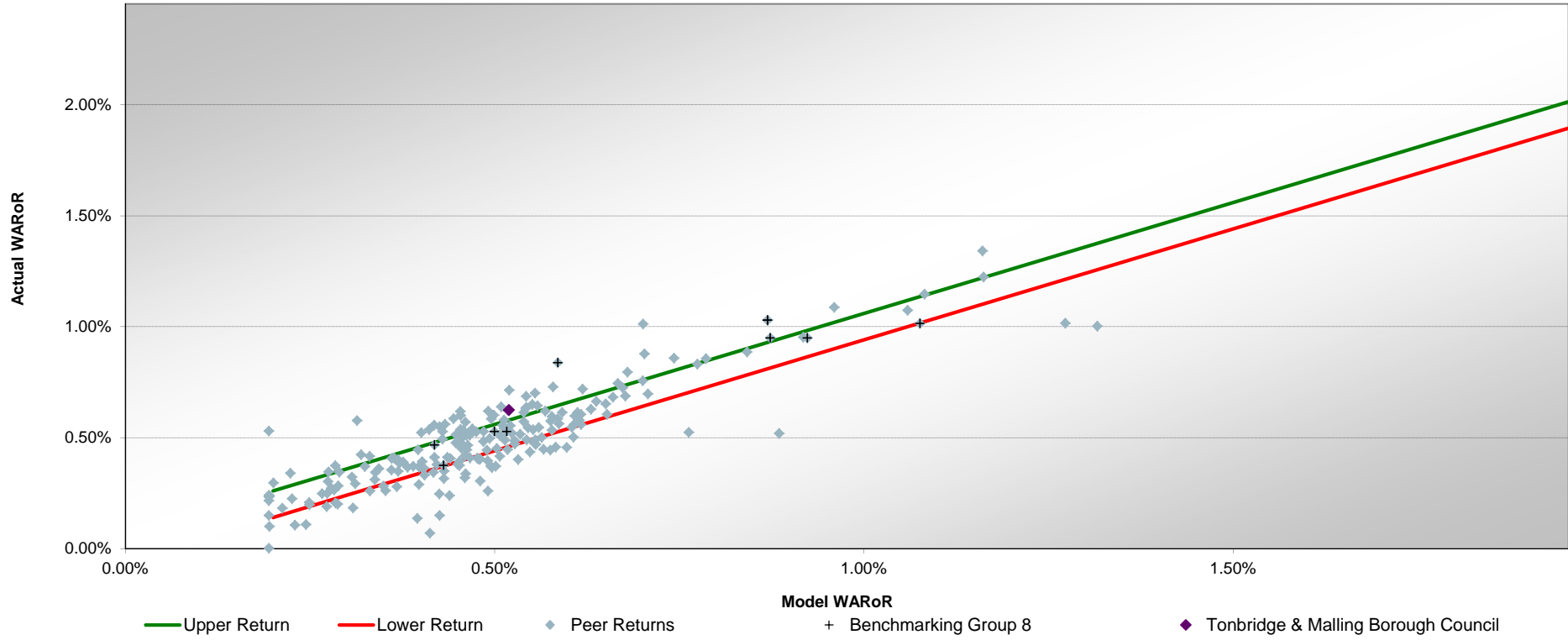
Approved by Director of Finance & Transformation
31st July 2017

This page is intentionally left blank

Tonbridge & Malling Borough Council

Population Returns against Model Returns

Page 35



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.62%	0.52%	0.11%	0.46%	0.58%	Above

This page is intentionally left blank

Prudential and Treasury Indicators

1 Prudential Indicators	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital expenditure	1,632	1,872	2,682
Ratio of financing costs to net revenue stream	-2.33%	-2.53%	-0.97%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	Nil
Annual change in capital financing requirement	nil	nil	Nil
Incremental impact of capital investment decisions:			
Increase in Council Tax (Band D) per annum	£0.10	£0.00	£0.48

2 Treasury Management Indicators	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Authorised limit for external debt:			
Borrowing	nil	5,000	5,000
Other long term liabilities	nil	nil	nil
Total	nil	5,000	5,000
Operational boundary for external debt:			
Borrowing	nil	2,000	2,000
Other long term liabilities	nil	nil	nil
Total	nil	2,000	2,000
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	0 – 60%
Upper limit for variable rate exposure under one year at the year end	13,098 (43.5%)	40 – 100%	40 – 100%
Upper limit for total principal sums invested for over 364 days	nil (0%)	60%	60%

3 Maturity structure of new fixed rate borrowing during 2017/18	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

This page is intentionally left blank

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE STATEMENT OF ACCOUNTS 2016/17

Members are invited to endorse and approve the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2016/17. This report is to be approved prior to the Engagement Lead signing off the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report and to answer questions.

1.1 Introduction

1.1.1 Our external auditor (Grant Thornton UK LLP) is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts, and for this to be endorsed and approved before the Accounts are signed off. Under the Council's constitutional arrangements it is this Committee that is charged with governance for this purpose.

1.1.2 In accordance with this requirement, the Audit Findings Report on the outcome of the audit of the Statement of Accounts 2016/17, up to the date of the print deadline, is attached at **[Annex 1]**. Some procedural matters are in the process of being finalised prior to the meeting of the Committee and officers will provide a verbal update at the meeting. The Engagement Lead and or her representative will be at the meeting to present the report and to answer questions.

1.2 Conclusions and Recommendations

1.2.1 Members will note there are no material issues, at this stage, that need to be brought to the attention of the Committee and that the Engagement Lead anticipates being able to issue an unqualified audit opinion on the financial statements and value for money conclusion in the next few weeks.

1.2.2 For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation **[Annex 2]** that I have prepared. With that in mind it is requested that delegated authority be granted to

the Chairman and I to sign the Letter when Grant Thornton are ready to issue their opinion. Accordingly, there is a statement at the end of the letter which reads:

“The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 4 September 2017, with delegated authority granted to the Chairman to sign this letter, together with the Director of Finance and Transformation”.

1.3 Statement of Accounts 2016/17

- 1.3.1 As noted at paragraph 1.2.1, I am pleased to report there are no material issues that need to be brought to the attention of the Committee following the audit.
- 1.3.2 The changes made to the unaudited Accounts presented to the Committee in July were minor, either being textual or presentational in nature. I do not propose to circulate copies of the audited Accounts, but as is required will ask that the Chairman sign a copy of the audited Accounts for 2016/17.
- 1.3.3 With regard to value for money it was found that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017. Members will note the overall VFM conclusion within the report states:

“On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.”

1.4 Legal Implications

- 1.4.1 There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

1.5 Financial and Value for Money Considerations

- 1.5.1 The cost of the work carried out is as notified to us in the 2016/17 Audit Plan.

1.6 Risk Assessment

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

1.7 Equality Impact Assessment

- 1.7.1 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.

1.8 Recommendations

1.8.1 Members are **RECOMMENDED** to:

- 1) Approve the Audit Findings Report, subject to the verbal update, on the outcome of the audit of the Statement of Accounts for 2016/17 **[Annex 1]**.
- 2) Endorse that the Chairman and I be granted delegated authority to countersign the Letter of Representation **[Annex 2]** when Grant Thornton are ready to issue their opinion.
- 3) Request that the Chairman sign the Accounts in the appropriate place.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

This page is intentionally left blank

The Audit Findings Report for Tonbridge & Malling Borough Council

Year ended 31 March 2017

August 2017

43

Sarah Ironmonger

Engagement Lead

T +44 (1293) 554 072

E Sarah.L.Ironmonger@uk.gt.com

Richard Lawson

Manager

T +44 (0) 20 7728 2084

E richard.lawson@uk.gt.com

Andy Ayre

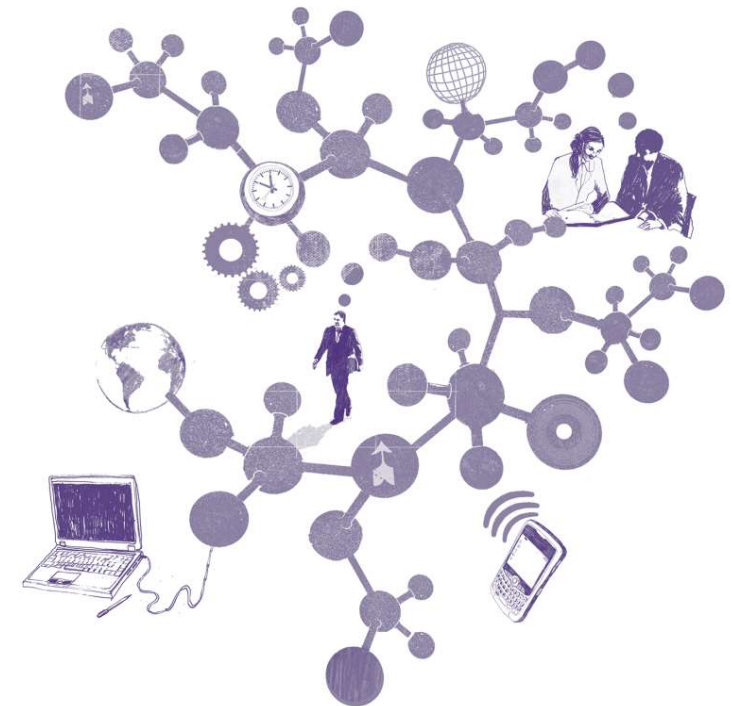
Assistant Manager

T +44 (0)20 7383 5100

E Andy.J.Ayre@uk.gt.com

DRAFT

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.





Private and Confidential

Tonbridge & Malling Borough Council
Kings Hill (Head Office)
Gibson Building,
Gibson Drive,
Kings Hill,
West Malling
ME19 4LZ

8 August 2017

Dear Members of the Audit Committee

Grant Thornton UK LLP
2nd Floor St Johns House
Haslett Avenue West
Crawley
RH10 1HS
T +44 (0) 293 554130
www.grant-thornton.co.uk

Audit Findings Report for Tonbridge & Malling Borough Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Tonbridge & Malling Borough Council, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Sarah Ironmonger
Engagement lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	19
4. Fees, non-audit services and independence	23
5. Communication of audit matters	25

Appendices

A Audit opinion

Page 45

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Tonbridge & Malling Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we presented to you in our Audit Plan on 3 April 2017.

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

- receipt of the outstanding investment confirmations
- receipt of the outstanding bank confirmations
- Completion of journals testing
- completion of Housing Benefits testing
- Agreement of sample of employees to pension/national insurance notification
- Physical verification of a sample of assets
- Assessment of the adequacy of the NNDR provision
- Agreement of two revenue grants to notification
- Completion of debtors testing
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation

- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting your reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of (£3,085k).

We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of your financial statements are:

- you employed effective processes for producing accurate and high quality draft financial statements, which were supported by good working papers.
- the changes made to the accounts were minor, either being textual or presentational in nature. Many of the adjustments were below the threshold which requires us to report to Those Charged With Governance.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of your Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

You are responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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

Findings

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

Value for Money

Based on our review, we are satisfied that, in all significant respects, you have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to Audit Committee.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed officers.

Acknowledgement

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

Grant Thornton UK LLP
August 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Page 50

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £1,212k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit.

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £61k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where a separate materiality level would be appropriate. These remain the same as reported in our audit plan.

Page 51

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&I) 320)

Audit findings against significant risks

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue 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 & 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; and • the culture and ethical frameworks of local authorities, including Tonbridge & Malling Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation [Modify for work to be completed] • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any evidence of management over-ride of controls.</p> <p>However, Members may recall in previous years, we reported that there are no authorisation controls on the posting of journals prior to them being posted to the ledger. Management's compensating controls include restricting the ability to post journals to a very small number of officers and a senior officer review of control accounts on a monthly basis to identify any significant unexpected items.</p> <p>We note these arrangements remain in place for 2016/17.</p> <p>We did not identify, nor were we made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"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&I) 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&I) 550)

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 53</p>	<p>Payroll expenditure represents a significant percentage of your gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle Undertaken walkthrough of the key controls to assess whether those controls are in line with our documented understanding Sample testing of payroll transactions during the year Reviewed your year end reconciliations of the payroll to the ledger Completed directional analytical review using trend analysis 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of your gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> creditors understated or not recorded in the correct period 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> Documented our understanding of processes and key controls over the transaction cycle Undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding Sample testing of operating expenditure during the year Testing of the year end payables; and Testing for unrecorded liabilities. 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p>

"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&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of pension fund net liability</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 54</p>	<p>Your pension fund asset and liability as reflected in your balance sheet represent a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identification and walkthrough of your controls to ensure that the pension fund net liability is not materially misstated • Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation • Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made • Review of the consistency of disclosures in the financial statements with the actuarial report. 	<p>Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on your actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

Accounting policies, estimates and judgements

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



Accounting area	Summary of policy	Comments	Assessment
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 55</p> <p>Revenue recognition</p>	<ul style="list-style-type: none"> Income is accrued to ensure that it is accounted for in the year to which it relates, not when cash payments are received. Revenue from the sale or provision of goods and services is recognised when it is probable that the economic benefit will flow to the Council. Revenue relating to council tax and business rates will be recorded at the full amount receivable, net of any impairment losses. These transactions are deemed to be of a non-contractual, non-exchange nature in that there is no difference between the delivery of services and the payment of the debt raised. 	<ul style="list-style-type: none"> The accounting policy is adequately disclosed in line with the requirements of the CIPFA Code. Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition. 	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Pension fund valuations PPE revaluations Impairments Provisions 	<ul style="list-style-type: none"> You set out your policies on judgements and estimates in note 1 to the accounts. We reviewed these policies and concluded they were reasonable and consistent with the CIPFA Code of Practice on Local Authority Accounting. We did not identify any instances of non compliance with those policies. We considered your process to estimate the carrying value of those assets not subject to external revaluation in 2016/17. We concluded that the Council's estimate was not materially misstated. Under the accounting framework for business rates billing authorities are required to estimate a provision for business rate appeals. The value of this provision in the collection fund account at 31 March 2017 was £7,500,000, of which your share was £3,000,000. 	<p style="text-align: center;">● Green</p>

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed your assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards	We have reviewed your policies against the requirements of the CIPFA Code of Practice. Your accounting policies are appropriate and consistent with previous years.	 Green

Page 56

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from you.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We use third party confirmations to support our review of cash and investment balances at 31 March 2017. We are awaiting investments third party confirmations from Natwest, Bank of Scotland, Lloyds, Barclays and Toronto Dominion.
6.	Disclosures	<ul style="list-style-type: none"> Issues requiring changes to amounts above the level at which we are required to report are reported at "Misclassifications and disclosure changes".

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of you acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> • Note that work is not required as you do not exceed the threshold.

Page 58

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Presentation and disclosure	N/a	N/a	We have made a small number of suggested presentational and disclosure changes to aid users' understanding of the financial statements.

Section 3: Value for Money

Page 60

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

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan on 3 April 2017.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- You have proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Financial position On its current trajectory, you have 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. You will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on your long term financial stability.</p>	<p>We reviewed the progress against the 2016-17 financial plan up to the completion of our audit; and obtained an update on your Medium Term Financial Strategy, including progress on identified and unidentified savings required in 2017/18. We also carried out discussions with your progress to date.</p>	<p>You set a balanced budget for the year and achieved an improved year end reported position. The factors behind the improved financial position are an improved performance by a number of individual service budgets, together with management savings on pay costs and better than budgeted performance in major operational income streams which resulted in the contribution of £0.9 million to your general reserves.</p> <p>The programme for compiling your savings plans is based on the processes you put in place as part of your Savings and Transformation Strategy. You identified a savings target of £1.9 million for the period 2016/17 to 2019/20.</p> <p>Following the local government settlement the savings target was revised to £1.6 million for the period 2017/18 to 2020/21 to reflect changes in assumptions in the new homes bonus scheme which will continue to decrease up to 2021/22. Your current projections show that the new homes bonus could be as low as £1.4 million (the current level is £3.8 million). The impact of the reduction in new homes bonus will require further savings to be made in an already challenging environment.</p> <p>Following regular updates to your financial plans and the achievement of ongoing budget reductions, you have in place a 10 year MTFs which requires the successful delivery of a 3 year savings programme of £1.6 million from 2018/19. You are planning to build reserves up to 2019/20 to be able to use the reserves from 2020/21 to achieve a balanced budget. As the savings targets become more challenging you will need to continue to monitor your MTFs closely to ensure assumptions remain appropriate. The savings target currently being addressed requires budget reductions of £0.65m to be in place by April 2018. At the time of preparing this report, we understand that only half of this target has so far been identified. Members and Senior management will need to work closely together in order to ensure that the remainder of the target is achieved within the timescales set.</p> <p>We concluded that you have proper arrangements to plan finances effectively to manage the medium term financial position of the Council.</p>

Section 5: Fees, non-audit services and independence

Page 64

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

We confirm below our final fees charged for the audit and **provision of non-audit services**.

Fees

	Proposed fee £	Final fee £
Council audit	45,776	45,776
Grant certification (indicative)	13,950	13,950
Total audit fees (excluding VAT)	59,726	59,726

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Independence and ethics

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

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'.

Section 6: Communication of audit matters

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

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by 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 (<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.

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

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

Appendix

Page 68

A. Audit Opinion



A: Audit opinion

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

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

We have audited the financial statements of Tonbridge and Malling Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise [the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and Transformation and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Transformation is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Director of Finance and Transformation; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Respective responsibilities of the Authority and auditor**

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Sarah Ironmonger
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
2nd Floor St Johns House
Haslett Avenue West
CRAWLEY
RH10 1HS

September 2017



© 2017 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

This page is intentionally left blank



www.tmbc.gov.uk

www.tmbc.gov.uk

financial.services@tmbc.gov.uk

Grant Thornton UK LLP
2nd Floor
St John's House
Haslett Avenue West
CRAWLEY
RH10 1HS

Contact	Mrs S Shelton
Email	Sharon.shelton@tmbc.gov.uk
Your ref.	
Our ref	F/200/PR.77.1
Date	4 September 2017

Dear Sirs

Tonbridge & Malling Borough Council
Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Tonbridge & Malling Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Financial Services
Gibson Building, Gibson Drive, Kings Hill, West Malling, Kent, ME19 4LZ
Director of Finance and Transformation: Sharon Shelton BSc (Hons), FCPFA
Chief Financial Services Officer: Neil Lawley FCPFA

Have you tried
contacting us at
[www.tmbc.gov.uk/
do-it-online?](http://www.tmbc.gov.uk/do-it-online?)

- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
- a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management are aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xix We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 4 September 2017, with delegated authority granted to the Chairman to sign this letter, together with the Director of Finance and Transformation.

Signed on behalf of the Council

Name Councillor Vivian Branson
Position Chair of the Audit Committee
Date September 2017

Name Sharon Shelton
Position Director of Finance and Transformation
Date September 2017

This page is intentionally left blank

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 2017

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 CONSULTATION ON AUDITOR APPOINTMENT FROM 2018/19

The purpose of the report is to advise Members of the correspondence received from Public Sector Audit Appointments Limited to consult on the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19.

1.1 Introduction

- 1.1.1 From 2018/19 Public Sector Audit Appointments (PSAA) is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements; and along with many councils this Council opted into PSAA's auditor appointment arrangements.
- 1.1.2 On the 15 August 2017 the attached correspondence [**Annex 1**] was received from Public Sector Audit Appointments Limited to consult on the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19. The consultation closes on the 22 September 2017.
- 1.1.3 I do not believe there to be any reason why we should object to the proposed auditor appointment and, therefore, intend to accept the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19.

1.2 Legal Implications

- 1.2.1 PSAA has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015.
- 1.2.2 PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted in authority and consult the authority about the proposed appointment.

1.3 Financial and Value for Money Considerations

- 1.3.1 A Sector Led Body approach maximises the opportunities for the most economic and efficient approach to procurement of external audit; and removes the costs of establishing and maintaining an auditor panel.

1.3.2 The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17.

1.4 Risk Assessment

1.4.1 None.

1.5 Equality Impact Assessment

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

1.6 Recommendations

1.6.1 Members are asked to **endorse** the appointment of Grant Thornton (UK) LLP to audit the accounts for five years from 2018/19.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton

Director of Finance and Transformation

This is a formal communication to the chief executive and chief finance officer of Tonbridge and Malling Borough Council to consult on the auditor appointment from 2018/19

I am writing to consult you on the appointment of Grant Thornton (UK) LLP to audit the accounts of Tonbridge and Malling Borough Council for five years from 2018/19. The appointment will start on 1 April 2018.

Background

For audits of the accounts from 2018/19, PSAA is responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. More information on the [appointing person scheme](#) is available on our website.

About the proposed appointment

PSAA must, under regulation 13 of the Regulations, appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.

Tonbridge and Malling Borough Council has opted into PSAA's auditor appointment arrangements. We have sent regular email communications to audited bodies about this process, and wrote to you on 19 June 2017 to advise you that we had completed a procurement to let audit contracts from 2018/19. Grant Thornton (UK) LLP was successful in winning a contract in the procurement, and we propose appointing this firm as the auditor of Tonbridge and Malling Borough Council.

Grant Thornton UK comprises around 4,500 employees delivering services to 40,000 clients. The public sector has played a significant role within the firm for over 30 years. The UK Public Sector Assurance team employs 301 people, including 29 Key Audit Partners, based in designated 'centres of excellence', providing it with locally based public sector specialists across the country. The team is solely dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and the Wales Audit Office. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's development of appropriate thought leadership and support, such as its series of publications and workshops on income generation in local authorities. In addition, the team can draw on the commercial skills and experience of a wider assurance team of over 1,516 individuals, to reflect the changing assurance needs of local authorities and NHS bodies.

In developing this appointment proposal, we have applied the following principles, balancing competing demands as much as we can, based on the information provided to us by audited bodies and audit firms:

- ensuring auditor independence, as we are required to do by the Regulations;
- meeting our commitments to the firms under the audit contracts;
- accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
- ensuring a balanced mix of authority types for each firm;
- taking account of each firm's principal locations; and
- providing continuity of audit firm if possible, but avoiding long appointments.

Further information on the [auditor appointment process](#) is available on our website.

Responding to this consultation

We are consulting you on the proposed appointment of Grant Thornton (UK) LLP to audit the accounts of Tonbridge and Malling Borough Council for five years from 2018/19. The consultation will close at **5pm on Friday 22 September 2017**.

If you are satisfied with the proposed appointment, please confirm this by email to auditorappointments@psaa.co.uk. No further action is needed from you.

The PSAA Board will consider all proposed auditor appointments at its meeting scheduled for 14 December 2017. We will write by email to all opted-in bodies after this Board meeting to confirm auditor appointments.

Process for objecting to the proposed auditor appointment

If you wish to make representations to PSAA about the proposed auditor appointment, please send them by email to auditorappointments@psaa.co.uk to arrive by **5pm on Friday 22 September 2017**.

Representations can include matters that you believe might be an impediment to the proposed firm's independence, were it to be your appointed auditor. Your email should set out the reasons why you think the proposed appointment should not be made. The following may represent acceptable reasons:

1. there is an independence issue in relation to the firm proposed as the auditor, which had not previously been notified to PSAA;
2. there are formal and joint working arrangements relevant to the auditor's responsibilities, which had not previously been notified to PSAA; or
3. there is another valid reason, for example you can demonstrate a history of inadequate service from the proposed firm.

We will consider carefully all representations and will respond by Monday 16 October 2017 by email.

If your representations are accepted, we will consult you on an alternative auditor appointment between 16-27 October 2017. If your representations are not accepted, we will confirm this to you. You may choose to make further representations to the PSAA Board, providing any additional information to support your case.

We will write to all bodies to confirm the Board's final decision on the appointment of the auditor before 21 December 2017.

Scale fees for 2018/19

We will consult on scale fees for 2018/19 in due course and will publish confirmed scale fees for 2018/19 for opted-in bodies on our website in March 2018. The results of the audit procurement indicate that a reduction in scale fees in the region of approximately 18 per cent should be possible for 2018/19, based on the individual scale fees applicable for 2016/17. Further [information on the audit procurement](#) is available on our website.

Further information

If you have any questions about your proposed auditor appointment or the consultation process, please email us at auditorappointments@psaa.co.uk.

Yours sincerely

Jon Hayes
Chief Officer

This email and any files transmitted with it are private and intended solely for the use of the individual or entity to which they are addressed. If you are not the intended recipient the E-mail and any files have been transmitted to you in error and any copying, distribution or other use of the information contained in them is strictly prohibited.

All e-mails to anyone @psaa.co.uk are communications to the company and not private and confidential to any named individual.

PSAA's computer systems and communication may be monitored to secure the effective operation of the system and for other lawful purposes.

Security and reliability of e-mails are not guaranteed. PSAA operate anti-virus programs but you must take full responsibility for virus checking this e-mail (including all attachments). PSAA do not accept any liability in respect of any damage caused by any virus which is not detected.

This page is intentionally left blank

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

04 September 2017

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to August 2017.

Internal Audit Update

1.1 Introduction

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

1.2 Progress against the 2017/18 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2017/18 was approved by this Committee on the 3 April 2017. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2017/18 against the Plan and finalisation of any work brought forward from the 2016/17 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, 20 were audits or proactive fraud reviews that will result in an assurance opinion. One of these has been split into two pieces of work amending the total assurance work to 21 audits/reviews. The remainder of items on the plan relate to five consultancy items, follow-up of recommendations due or allowances for the provision of control advice, etc.

1.2.3 The team have issued final reports and agreed management action plans in respect of two 2017/18 audits and two 2016/17 audits brought forward; the audit of Demand Management brought forward has been superseded by the ongoing Customer Services review. A draft report has been issued for a further four audits with two audits currently underway and planning in progress for a further three. Two pieces of consultancy work are in progress with planning undertaken for the remaining three. The remaining work is scheduled across the rest of the financial year. A summary of the current status of all audits on the 2017/18 Plan and the brought forward 2016/17 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]**.

1.3 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards

1.3.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1.3.2 Internal Audit was subject to an independent External Quality Assessment (EQA) during 2016/17, this exercise is undertaken every five years in line with requirements. The overall opinion was that Internal Audit Generally Conforms to the Public Sector Internal Audit Standards.

1.3.3 The results of the EQA undertaken in May 2016 were reported to the September 2016 Committee meeting and an action plan was prepared to address the eight areas assessed as partially conforms with an update on progress reported to the April 2017 Committee meeting. A further update demonstrating action is complete for five of the eight partially conforms is provided to this meeting **[Annex 3]**. Of the three outstanding, two actions are partially completed with the remaining one in progress.

Counter Fraud Update

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 2017/18.

1.4.2 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 result of the exercise completed in October 2016 was that 1,768 matches were received in January 2017. To date 1,507 have been closed with no further action required

and 3 have been closed with errors found. A further 258 are currently subject to further investigation.

- 1.4.3 In 2017, for the first time, NFI conducted additional data matching using Council Tax Single Person Discount data to a myriad of other data sets held, including Blue Badges, Concessionary Fares, Pensions, Payroll and Parking Permits. This resulted in 2,311 matches. To date 1,942 have been closed with no further action required and 369 are subject to further investigation.
- 1.4.4 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount; the most recent results were received in January 2017. There were 842 matches received, 380 have been closed with no further action required and 24 have been closed with errors found. A further 96 have been opened to undertake further enquiries leaving 342 yet to be reviewed. There are currently two matches from the January 2016 exercise that remain subject to investigation.
- 1.4.5 The Kent Intelligence Network, a government funded partnership led by Kent County Council, went live in September 2016. The partnership's key aim is to prevent and detect fraud, reduce partner's fraud risk profiles and support development of fraud professionals in Kent. It delivers 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.
- 1.4.6 Three data matches have been completed through the KIN with more planned for 2017/18. The benefits of the partnership, financial and other, will become increasingly apparent in the current financial year as more matches are investigated and savings can be assessed. Matches and results to date are as follows:
- Housing Register to Single Person Discount where five data matches were received, of which four were closed with no further action required and one was found to be an error.
 - Businesses in receipt of Small Business Rate Relief across the county where 23 matches were received, of which ten have been closed with no further action required and 13 are currently being reviewed.
 - Data from the Charities Commission to businesses in receipt of charitable relief where 74 matches were received. These were received relatively recently and are currently being reviewed.
- 1.4.7 KCC recently provided in large part funding for the procurement of software and a temporary resource to proactively identify high risk cases in relation to Council Tax where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. The first batch of cases for review has recently been run from the system and the results of this exercise will be reported to the Committee when initial results are forthcoming.

1.4.8 Where a match is found through any of the routes above it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error. Data matches will initially result in one of three outcomes, the first being immediate closure due to the match occurring through a data quality issue. Secondly further enquiries where some additional information is sought that demonstrates either a data quality issue, a timing difference (i.e. a change reported to us between data being sent for matching and matches received) or a case already known to us. Thirdly further enquiries establish that there is a potential for fraud or error and further investigation is required. Examples to illustrate this are as follows:

First data set	Second data set	Result
Council Tax Single Person Discount (SPD) Mr J Smith 4 The Avenue	Blue Badge John Smith 4 The Avenue	Mr J Smith and John Smith are highly likely to be the same person, match closed immediately as data quality issue

First data set	Second data set	Result
SPD Mr J Smith 4 The Avenue	Concessionary Fare Mary Jones 4 The Avenue	Initial enquiries on the Council Tax system show that Mary Jones was a previous resident at 4 The Avenue but left the property in 2015, match closed as no issues after initial enquiries

First data set	Second data set	Result
SPD Mr J Smith 4 The Avenue	Parking Permit Lisa Brown 4 The Avenue	Initial enquiries on the Council Tax system show no other adults (including rising 18s) at the given address, possible undeclared non-dependent or living together, opened for further investigation

1.4.9 Meetings are being set up with key stakeholders to take forward other proactive work in the 2017/18 Audit and Fraud Plan, planned proactive work outside of the data matching through NFI and KIN addressed above includes training on fraud risks and working with services to support enforcement. One area identified for focus in 2017/18 is Blue Badge fraud where we will be liaising with Kent County Council, who have been working successfully with other district councils.

1.5 Investigating Fraud

- 1.5.1 The Fraud Team is responsible for investigating all 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 2017/18 to end of July, the Counter Fraud Team have closed 80 cases and received a total of 116 referrals, 106 of which relate to NFI as detailed at 1.4; there are 100 ongoing investigations. The total amount of income due as a result of investigations to end of July is £9,406.05 with increased annual liability of £6,237.89. **[Annex 4]** summarises the results of investigations concluded in 2017/18 to date.

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

2017-18 Internal Audit Assurance Reviews

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Payroll	1	Complete	Substantial	<p>The overall objective of the audit was to provide assurance that effective controls are in place to ensure that; salaries, wages, and third parties such as HMRC, Unison, and the Kent Pension Fund are paid correctly and on time. Payments are authorised, reconciled and transferred to the Council's financial management systems.</p> <p>It was found that each stage of the payment run is recorded, with appropriate and accurate checks in place. At the time of the audit the team was experiencing high levels of absence and brought in help from other teams to provide support. The team is now returning to a full complement of staff over forthcoming months through a phased return to work programme. It was noted that the Exchequer Services Manager and the Payroll Officer have both been dedicated and flexible in their approach to covering absence to ensure that the work has been carried out.</p> <p>Separation of duties are in place for the running of reports and reconciliations, however the BACS payment is made by the same officer who processed it, and then the BACS payment is authorised by the Exchequer Services Manager (ESM). As the ESM was also involved in the reconciliation process this is not sufficient segregation of duties.</p> <p>A new user access report has been developed by IT to identify user access and privileges to the payroll system which had previously not been possible. The reports show limited information and are not yet embedded into the control system.</p> <p>There is a redundant stock of payment cheques retained and it would be impractical to use these in bulk without the necessary specialist impact printer which is no longer owned by the Council. Therefore it is prudent to look at alternative contingency payment methods.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Serious and Organised Crime - Risk to Procurement Activity	1	Complete	Varied across service areas	<p>The objective of the audit was to provide assurance that the Council has an awareness of the potential to be targeted for Serious and Organised Crime, has sufficiently assessed the risks involved, and has adequate controls in place to mitigate against Serious and Organised Crime.</p> <p>Management Team awareness is proportionate to the level of expected risk based on liaison with local police advice through the Community Safety Partnership, Chief Constable and Divisional Commander. There are varying degrees of awareness of how Serious and Organised Crime might affect service areas. The Council has a robust procurement process which is proportionate with the value of the contracts. High value contracts have officer project groups with representatives from key areas which help to ensure that procurement is fair and transparent and the Council protected as far as possible.</p> <p>The Council's Anti-Money Laundering (AML) Policy and guidance have not been reviewed or circulated since 2011 and the fourth generation of AML legislation came into effect in June 2017. Awareness of the policy and guidance is limited. There are mechanisms within kiosks to prevent anyone depositing significant funds. No official AML reports have been submitted and any enquiries have been related to payments from cash-oriented business such as taxi firms and car washing firms.</p> <p>We found gaps in evidence on file of right to work for employees, agency workers and self-employed consultants working for the Council. References were not available for all staff. The Home Office can impose substantial civil penalties if found that the Council had employed officers without a legal right to work in the UK.</p>
Corporate Governance - compliance with	1	Draft Report	TBC	

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
new framework and Policy Management				
S106 agreements	1	Draft Report	TBC	
Housing Payments and Grants -Housing Discretionary Payments	2	Draft Report	TBC	
Housing Payments and Grants -Housing Assistance Grants	2	Draft Report	TBC	
Savings and Transformation Strategy	3			
Risk Management	4			
Bribery & Corruption	1	Planning		
Safeguarding	3			
General Data Protection Regulations	Ongoing	Ongoing consultancy work		
Information Governance including data sharing agreements	3			
IR35	1	Planning		

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Licensing	3	Planning		
Help desk	4			
IT Disaster Recovery Plan	4			
Cyber attacks	2	Quality Assurance		
Change in banking arrangements	1	Planning		
Local Plan	3			
Development Management	4			
Building control resilience	3			
Planning enforcement	3	Planning		
Health and Safety	2	In progress		
Air Quality Management	3	Planning		
Business Continuity Plan	4			
Waste Contract Tender	Ongoing	Ongoing consultancy work		

2016-17 Internal Audit Assurance Reviews completed in 2017/18 to August

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Parking	4	Complete	Amber	<p>The objective of the audit was to provide assurance on whether the Parking team is operating efficiently and effectively, and that changes to parking charges, including tariffs, zones and times are considered, reviewed, and approved by Members.</p> <p>The systems used to record actions taken by Civil Enforcement Officers (CEOs) record performance monitoring on an ad-hoc basis and this was found to include most, but not all, expected indicators. Supervision is undertaken, however the nature and frequency is not recorded and therefore it has not been possible to confirm that monitoring is effective. The CEO shift rota was checked and found to be fully compliant with Government Guidelines. It allows for flexibility for absence coverage when fully staffed, however this is compromised when short. Parking Enforcement Guidelines were introduced by the Parking Manager and include clear and concise information for CEOs.</p> <p>General risk assessments covered expected risks; however at the time of testing had not been reviewed since 2013. This was true for the Lone Working Risk Assessment, Working on the Public Highway, Working in Adverse Weather Conditions, and Violence at Work. These have since been reviewed and updated and new versions uploaded to the intranet.</p> <p>Parking fees are currently reviewed every two years. For 2016/17 these were agreed by Cabinet in February 2016 and implemented in May 2016. New enforcement zones are reviewed in service before being sent to Management and subsequently approved by Members. In both cases there is appropriate and adequate consultation with relevant stakeholders including residents.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Business Rates	2	Complete	Limited	<p>The objective of the audit was to provide assurance that the Authority has adequate and effective controls in place to address the risk of Fraud and Error in Business Rates (NNDR).</p> <p>All but one temporary member of staff had received training in the last three years on legislative changes and there is a comprehensive help section within the operating system to support staff. However there are no written procedures in place to inform staff of data recording and inputting standards, minimum information requirements and inspections.</p> <p>There is currently no strategy in place to review reliefs and exemptions within the business rates system and testing established inconsistencies in the recording of information to support a change in liability and in the application processes for charitable relief and small business rate relief; for example cases of missing application forms and lack of evidence of charity status.</p> <p>It was also noted that not all visits are clearly recorded and two hour safety calls to the office are not always completed; these are requirements of the Lone Working Policy for Revenues and Benefits, although this is out of date. A review of declarations of interests by staff working within Business Rates found that these were out of date; this was addressed during the audit.</p>
Demand Management	2	Superseded	N/a	Superseded by ongoing Customer Services review, now consultancy through meetings with relevant officers to align audit and service findings and advice as appropriate.
Cemeteries Capacity Consultancy	3	Ongoing		C/f to 2017/18 at request of service.

Definitions of Audit Opinions

High	<p>There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.</p>
Substantial	<p>The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non-compliance were noted during the audit that may put a system/service objective at risk.</p>
Adequate	<p>The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non-compliance with some controls that may put system/service objectives at risk.</p>
Limited	<p>Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.</p>
No Assurance	<p>The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.</p>

This page is intentionally left blank

Recommendations to achieve more complete conformance to the Standards

1230 Continuing Professional Development	Response & action date	Progress at 10 th March 2017	Progress at 31 st July 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 is 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 and 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>	<p>Objectives set as part of appraisal process November 2016</p> <p>Training plan less relevant with one audit team member who is undertaking professional studies therefore this is not considered relevant for remainder of 2017/18 year but will be re-visited for 2018/19</p> <p>Competency frameworks and development strategy drafted but on hold (see above)</p> <p>CAE's CPD action completed</p>
2010 Planning	Response & action date		
<p>Plans provided to management and the Audit Committee should give more</p>	<p>Clarity over the further development of the audit universe would be</p>	<p>Audit universe updated but no further guidance was received</p>	<p>In progress/ongoing Strategy documented in the</p>

<p>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 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>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 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>Assurance for reliance purposes documented where possible</p> <p>Strategy developed as part of 2017/18 Planning</p>	<p>Audit Manual and 2017/18 Annual Audit Plan</p> <p>No further assurance sources have been identified to date but we continue to review this</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</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</p>	<p>Final Strategic Risk Register to September 2017 Audit Committee meeting</p> <p>Audit of Health and Safety function included in 2017/18 Plan however limited further internal assurance (second line) functions identified</p> <p>Complete</p>

	<p>comments on assurance providers and second-line at 2010)</p> <p>Implementation 01/04/2017</p>	<p>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>	<p>Complete</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</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>	<p>This is ongoing in relation to individual audits but risks are now explicit in engagement plans and reports - Complete</p>

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.			
2320 Analysis and Evaluation	Response & action date		
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.	Agreed, to be actioned with immediate effect for 16/17 audits	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	Ongoing – TeamMate has not progressed further to date
2450 Overall Opinions	Response & action date		
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.	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. Implementation by 31/07/2017 (dependent on committee date)	To be addressed in the Annual Report to the July meeting	Complete

Recommendations for Further Development

I offer some ideas and recommendations to improve some aspects of the internal audit function.

1300 Quality Assurance and Improvement Programme	Response & action date
A good QAIP has been introduced which provides a sound basis for developing and improving the quality of the team. In a small team it is not always possible to get sufficiently independent peer reviews of the quality of the work and I would recommend using KCC or some other external reviewer to perform occasional "cold reviews" particularly when the CAE has been the lead auditor.	Will be reviewed at end of 2017/18 audit year as part of the internal self-assessment
2430 Use of 'conducted in conformance with the International Standards for the Professional Practice of Internal Auditing'	Response & action date
I recommend adoption of the wording 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing' in audit reports.	To be implemented for 2017/18 Final Reports

This page is intentionally left blank

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	2	1	0	1	£0.00	£0.00	£0.00	0	£0.00
Council Tax Reduction	3	2	1	0	£21.69	£3,436.42	£1,176.39	0	£0.00
SPD	75	58	17	0	£87.47	£5,969.63	£5,061.50	8	£560.00
SPD & CTR	0	0	0	0	£0.00	£0.00	£0.00	0	£0.00
NNDR	0	0	0	0	£0.00	£0.00	£0.00	0	£0.00
DHP	0	0	0	0	£0.00	£0.00	£0.00	0	£0.00
Council Tax Liability	0	0	0	0	£0.00	£0.00	£0.00	0	£0.00
	80	61	18	1	£109.16	£9,406.05	£6,237.89	8	£560.00

Sanctions as follows:

- £70 Penalty x 8
- 1 x Caution

This page is intentionally left blank

Agenda Item 9

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

This page is intentionally left blank

Agenda Item 10

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

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

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Agenda Item 12

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

This page is intentionally left blank