

# TONBRIDGE & MALLING BOROUGH COUNCIL



## EXECUTIVE SERVICES

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### Chief Executive

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

Contact: Committee Services  
[committee.services@tmbc.gov.uk](mailto:committee.services@tmbc.gov.uk)

19 July 2019

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, 29th July, 2019 commencing at 7.30 pm

Yours faithfully

JULIE BEILBY

Chief Executive

## A G E N D A

### PART 1 - PUBLIC

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

3. Minutes 9 - 12

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 1 April 2019

**Matters for Recommendation to the Council**

4. Treasury Management Update and Annual Report for 2018/19 13 - 36

*The report provides an update on treasury management activity undertaken during April to June of the current financial year. The treasury management outturn position for 2018/19 is also included.*

**Decisions to be taken under Delegated Powers**

5. Risk Management Update 37 - 48

*The report provides an update on the risk management process and the Strategic Risk Register. Members are also advised of a planned training session on risk management.*

6. Annual Governance Statement 2018/19 49 - 74

*The report presents the Annual Governance Statement for the year ended 31 March 2019 for endorsement. The Statement is signed by the Leader and the Chief Executive and accompanies the Statement of Accounts 2018/19.*

7. Statement of Accounts 2018/19 and External Auditor's Report on Outcome of Audit of Accounts 75 - 116

*The report presents an audited set of Accounts for 2018/19 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report on the outcome of the audit of the Accounts. The external auditors report is to be approved prior to the Engagement Lead signing off the Accounts.*

8. Review of Effectiveness of Internal Audit 117 - 122

*The report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function for the year 2018/19.*

9. Role of Audit Committee and Training Needs 123 - 128

*The report outlines the role of the Audit Committee as set out in the Constitution and more specifically its Terms of Reference and proposed training / briefings to assist Members fulfil the responsibilities placed on the Committee.*

## **Matters submitted for Information**

10. Opinion of Chief Audit Executive on Internal Control Environment and Annual Internal Audit and Counter Fraud Reports for 2018/19 129 - 158

*The report informs Members of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2018/19 to support that opinion. It also gives details of the work of the Counter Fraud function in 2018/19.*

11. Audit Fee Letter 2019/20 159 - 164

*A report to inform Members of the receipt of the Audit Fee Letter 2019/20.*

12. Urgent Items 165 - 166

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**

13. Exclusion of Press and Public 167 - 168

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**

14. Urgent Items 169 - 170

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 Mrs F A Kemp (Vice-Chairman)

Cllr T Bishop  
Cllr N Foyle  
Cllr P M Hickmott  
Cllr S A Hudson

Cllr J R S Lark  
Cllr L J O'Toole  
Cllr K B Tanner

Apologies for absence

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Declarations of interest

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## TONBRIDGE AND MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

Monday, 1st April, 2019

**Present:** Cllr V M C Branson (Chairman), Cllr R P Betts (Vice-Chairman), Cllr O C Baldock, Cllr T Bishop and Cllr Mrs F A Kemp

Grant Thornton, External Auditors: Mr P Dossett (Partner)

Councillors M A Coffin, N J Heslop, D Lettington and M R Rhodes were also present pursuant to Council Procedure Rule No 15.21.

An apology for absence was received from Councillor T C Walker

### PART 1 - PUBLIC

#### **AU 19/14 DECLARATIONS OF INTEREST**

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

#### **AU 19/15 MINUTES**

**RESOLVED:** That the Minutes of the meeting of the Audit Committee held on 21 January 2019 be approved as a correct record and signed by the Chairman.

### MATTERS FOR RECOMMENDATION TO THE COUNCIL

#### **AU 19/16 AUDIT COMMITTEE ANNUAL REPORT**

The report of the Chairman of the Audit Committee aimed to inform the Council of the means by which the Committee had provided independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. The report summarised the work carried out by the Committee during 2018/19 and concluded that the required assurance set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance had been provided by the Audit Committee to those charged with governance. The Leader of the Council thanked the Chairman and the members of the Audit Committee for their due diligence over the previous twelve months.

**RECOMMENDED:** That the Annual Report be presented to the Council as independent assurance on the adequacy of the risk management



framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

**\*Referred to Council**

#### **AU 19/17 LOCAL CODE OF CORPORATE GOVERNANCE**

The joint report of the Chief Executive and the Director of Central Services reminded Members that the Local Code of Corporate Governance had been substantially updated in 2017. Members were advised that following the adoption of the Council's new Constitution on 31 July 2018 the Local Code had been revisited and no further amendments were proposed. However, Members' attention was drawn to recent changes in Data Protection legislation and the need to update the 'Managing Data' and 'Respecting the Rule of Law' sections of the Local Code to reflect this. With regard to the latter section, and in particular the item 'Dealing with breaches of legal and regulatory provisions effectively' the Committee asked that the final paragraph be amended to read: 'The Council has appointed a Data Protection Officer, in accordance with GDPR, to ensure that following an internal investigation data breaches are reported to the ICO where necessary.'

**RECOMMENDED:** That, subject to the amendment of Section 1.3 as set out above, the revised Local Code of Corporate Governance, as set out at Annex 1 to the report, be commended for adoption by the Council. ◀

**\*Referred to Council**

#### **DECISIONS TAKEN UNDER DELEGATED POWERS IN ACCORDANCE WITH PART 3 OF THE CONSTITUTION (RESPONSIBILITY FOR COUNCIL FUNCTIONS)**

#### **AU 19/18 INTERNAL AUDIT AND FRAUD PLAN 2019/20**

The report of the Chief Audit Executive presented the Internal Audit and Fraud Plan for 2019/20 which received positive feedback from Grant Thornton, the external auditor.

**RESOLVED:** That the Internal Audit and Fraud Plan for 2019/20, as set out in Annex 1 to the report, be approved.

#### **AU 19/19 MEMBERS ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING**

The report of the Chairman of the Audit Committee explained how those charged with governance were required to provide assurance to the external auditor under International Standards on Auditing. Members considered the question asked and accompanying response which had been agreed with the Chairman and noted that the Management Team was also required to provide assurance in this regard and that this was the subject of a separate report.

**RESOLVED:** That the response set out in Annex 1 to the report be endorsed.

**MATTERS SUBMITTED FOR INFORMATION**

**AU 19/20 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING**

The Committee received the report of the Management Team on assurance provided to the external auditor under International Standards on Auditing. Reference was made to the similar assurance to be provided by the Audit Committee for which this report provided supporting evidence (Minute AU 19/19 refers).

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

**AU 19/21 TREASURY MANAGEMENT PERFORMANCE UPDATE**

The report of the Director of Finance and Transformation provided details of investments undertaken and return achieved during the period 1 April 2018 to 28 February 2019.

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

**AU 19/22 INTERNAL AUDIT AND COUNTER FRAUD UPDATE**

The report of the Chief Audit Executive provided an update on the work of the Internal Audit and Counter Fraud functions for the period 1 April 2018 to 28 February 2019. Support was expressed for a review of how Member attendance might be better communicated/published post the 2019 Borough Council Election.

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

**AU 19/23 SCALE OF AUDIT FEES FOR 2019/20**

The report of the Director of Finance and Transformation informed Members of the scale of fees for the audit of the 2019/20 accounts set by Public Sector Audit Appointments Limited (PSAA).

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

**AU 19/24 GRANT THORNTON - PROGRESS REPORT AND SECTOR UPDATE**

The report of the Director of Finance and Transformation introduced an Audit Progress Report and Sector Update provided by the External Auditor, Grant Thornton.

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

**AU 19/25 EXCLUSION OF PRESS AND PUBLIC**

The Chairman moved, it was seconded and

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

**PART 2 - PRIVATE****MATTERS SUBMITTED FOR INFORMATION****AU 19/26 INSURANCE CLAIMS HISTORY: APRIL 2018 - MARCH 2019**

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

The Director of Finance and Transformation reported on the nature and volume of liability and property damage insurance claims submitted during the period April 2018 to March 2019.

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

The meeting ended at 8.20 pm

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

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

#### Part 1- Public

#### Matters for Recommendation to Council

#### **1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2018/19**

**The report provides an update on treasury management activity undertaken during April to June of the current financial year. The treasury management outturn position for 2018/19 is also included in this report.**

#### **1.1 Introduction**

1.1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Code of Practice for Treasury Management in December 2017. The revised Code was adopted by Council on 30 October 2018 and suggests that Members should be informed of treasury management activity at least twice a year, but preferably quarterly. This report, therefore, ensures this Council is embracing best practice in accordance with CIPFA's revised Code of Practice.

#### **1.2 Economic Background**

1.2.1 The UK economy grew by 1.8% in 2018. Growth in quarter 1 of 2019 was unexpectedly strong at 0.5% (2.0% year on year). However, this was boosted by stock building ahead of the original March Brexit deadline. Growth in quarter 2 is expected to slow close to zero.

1.2.2 The Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018 but have since abstained from any further increases. Further action from the MPC is not expected until the uncertainties over Brexit clear. A no deal exit may see Bank Rate being cut in order to support growth. However, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, excluding bonuses, in the three months to December before falling marginally to 3.4% more recently. Growth in employment fell to only 32,000 in the three months to April, well below the 2018 average, while the unemployment rate remained at 3.8 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

1.2.3 CPI inflation rose slightly to 2.1% in April before falling back again to 2.0% in May. Subject to an EU withdrawal agreement, CPI is expected to remain around this level over the next two years.

1.2.4 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving. The difference between the two figures is now around 1.3% representing a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the UK in the coming months

### 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 cut to 0.25% in August 2016. In November 2017, the Bank of England returned the Bank Rate to 0.5%. Bank Rate was increased to 0.75% in August 2018. Link's current forecast (July 2019) anticipates Bank Rate rising to 1.0% by September 2020 and to 1.25% by March 2021.

Rate	Now	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50
3 mth LIBID	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.20	1.30	1.40	1.40	1.40
6 mth LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.20	1.40	1.50	1.60	1.60	1.60
12 mth LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.40	1.50	1.60	1.70	1.80	1.80
25yr PWLB	2.40	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.00	3.10	3.20	3.30

### 1.4 Investment Performance

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

1.4.2 The Council's investments are derived from cash flow surpluses, core cash balances 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 **[Annex 1]**. Thus far in 2018/19 cash flow surpluses have averaged £10.8m.

1.4.4 The Authority also has £26m 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 of which £3m are expected to be resolved in 2019/20 and the balance in future years.

1.4.5 Long term investment at the end of June 2019 comprised £5m in property fund investments.

1.4.6 A full list of investments held on 30 June 2019 is provided at **[Annex 2]** and a copy of our lending list of 1 July 2019 is provided at **[Annex 3]**. The table below provides a summary of funds invested and interest / dividends earned at the end of June.

	Funds invested on 30 June 2019	Average duration to maturity	Weighted average rate of return	Interest / dividends earned 1 April to 30 June 2019	Gross annualised return	LIBID benchmark (average from 1 April 2019)
	£m	Days	%	£	%	%
Cash flow	8.4	44	0.80	20,600	0.76	0.57(7 Day)
Core cash	26.0	190	1.13	71,500	1.10	0.68 (3 Mth)
Sub-total	<b>34.4</b>	<b>155</b>	<b>1.05</b>	<b>92,100</b>	<b>1.00</b>	<b>0.65 (Ave)</b>
Long term	5.0			44,900	3.59	
Total	39.4			137,000	1.31	

1.4.7 **Cash flow and Core cash Investments.** Interest earned of £92,100 to the end of June is £21,500 better than the original estimate for the same period. The authority also outperformed the LIBID benchmark by 35 basis points. The additional income is due to the higher core fund balances relating to unspent provisions for business rate appeals.

1.4.8 The Council takes advantage of Link's benchmarking service which enables performance to be gauged against Link's other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 4]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 31 March 2019 the Council's return at 0.99% (purple diamond) was above the local authority average of 0.87%. Based on the Council's exposure to credit / duration risk that return was at the top-end of Link's predicted return (just below the upper boundary indicated by the green diagonal line). The Council's risk exposure was also above the local authority average but not excessive by comparison.

- 1.4.9 **Long term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.
- 1.4.10 £3m was invested in property investment funds during 2017/18 and a further £2m invested during 2018/19. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments are expected in the future as resources become available from asset disposals and other windfalls.
- 1.4.11 During the period 1 April 2019 to 30 June 2019 the £5m investment in property funds generated dividends (income) of £44,900 which represents an annualised return of 3.59%.
- 1.4.12 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price. Economic growth in the UK slowed in 2018/19 as did the rate at which fund sale values appreciated. A fall in sale values was recorded at some month ends especially during the second half of 2018/19. Nevertheless, since inception, the overall progress towards breakeven is still encouraging.

<b>Property fund</b> (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price  (a) £	Sale value at date of purchase  (b) £	Sale value 30 June 2019  (c) £	30 June sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	974,100	(25,900)
Lothbury (Primary, July 2017)	1,000,000	927,700	979,500	(20,500)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	1,010,100	10,100
LAPF (Primary, June 2018)	1,000,000	922,200	934,000	(66,000)
Lothbury (Secondary, July 2018)	1,000,000	973,000	960,600	(39,400)
<b>Total</b>	<b>5,000,000</b>	<b>4,684,100</b>	<b>4,858,300</b>	<b>(141,700)</b>

## 1.5 Compliance with the Annual Investment Strategy

- 1.5.1 Throughout April to June 2019 all of the requirements contained in the 2019/20 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit rating; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April, May or June 2019.
- 1.5.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy. The 2019/20 Prudential and Treasury Indicators will be included for review as part of the treasury management report to the October 2019 meeting of Audit Committee.

## 1.6 2018/19 Treasury Management Outturn

- 1.6.1 A detailed report covering treasury management activity for the last financial year was submitted to Cabinet on 5 June 2019 as an annex to the Revenue and Capital Outturn report for 2018/19. That annex is replicated in full and provided at **[Annex 5]** to this report. The role of this Committee is to act as scrutineer on behalf of full Council.
- 1.6.2 A summary of the investment performance included in Annex 5 is as follows:

	2018/19 Average balance  £m	Return  %	2018/19 Interest/ dividends earned £	2018/19 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	15.5	0.73	112,189	90,000	22,189
Core cash	23.0	0.91	210,690	190,000	20,690
Long term investment	4.6	3.55	162,908	172,000	(9,092)
Total	43.1	1.13	485,787	452,000	33,787

- 1.6.3 The combined performance of the Authority's investments bettered the revised estimates by £33,787 (£108,787 when compared to the 2018/19 original estimates).

## 1.7 Legal Implications

- 1.7.1 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, Link are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

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

- 1.8.1 Investment income at the end of June 2019 (month three of the financial year) from cash flow surpluses and core cash investments is £21,500 better than budget for the same period. Income from property funds at the end of June is broadly in-line with budget expectations. Investment income for the 2018/19 financial year as a whole exceeded the revised budget by £33,787.
- 1.8.2 The Bank Rate having remained at a historic low of 0.5% for over seven years was cut to 0.25% in August 2016. In November 2017, the Bank of England returned the Bank Rate to 0.5%. Link's July 2019 forecast anticipates Bank Rate rising to 1.00% by September 2020.
- 1.8.3 Performance is monitored against a benchmark return and against other local authorities in Kent and the broader local authority pool via Link's benchmarking service.
- 1.8.4 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. The duration of a property fund investment may need to be extended to avoid crystalizing a loss and as a consequence, the investment's duration cannot be determined with certainty.
- 1.8.5 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.
- 1.8.6 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.

## **1.9 Risk Assessment**

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

## 1.10 Equality Impact Assessment

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

## 1.11 Recommendations

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

- 1) Endorse the action taken by officers in respect of treasury management activity for April to June 2019.
- 2) Note the 2018/19 outturn position.

Background papers:

contact: Mike Withey

Link interest rate forecast (July 2019)

Link benchmarking data (March 2019)

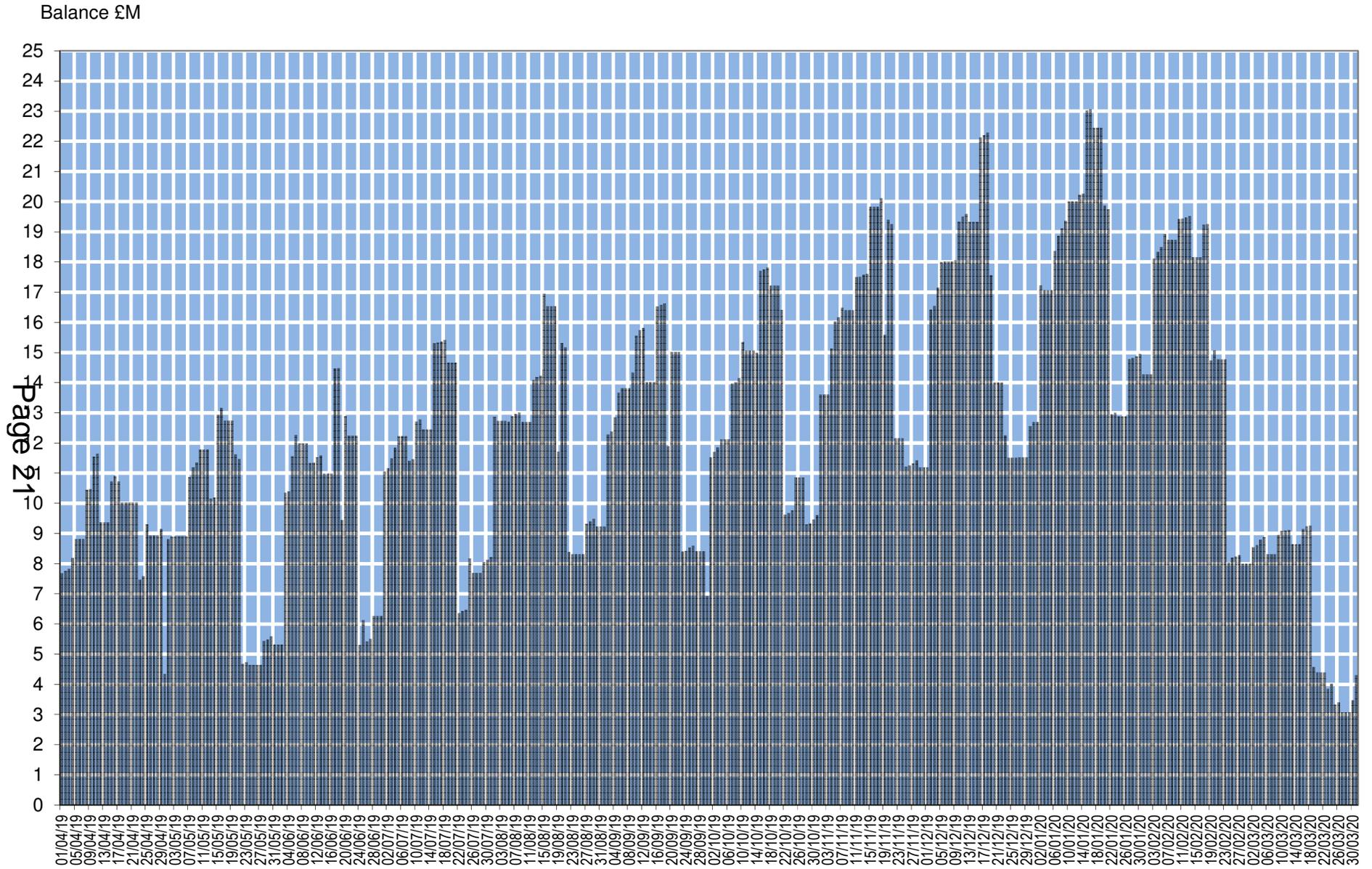
Sharon Shelton

Director of Finance and Transformation

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Cash flow surpluses

(Estimate of the daily cash balances for the 2019-20 financial year - prepared 27-3-2019)



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## Tonbridge and Malling Borough Council - Investment summary at 30th June 2019

Counterparty	Sovereign	Fitch Credit rating		Link Suggested Post CDS Duration Limit	Investment					Instrument type / Product	Cash Flow Surpluses £	Core Cash Balances £	Long Term Investment Balances £	
		Long Term	Short Term		Start Date	End Date	Duration	Amount Invested £	Return %					Proportion of total %
Bank of Scotland	UK	A+	F1	1 year	03/09/2018	03/09/2019	1 year	1,000,000	1.05%		Fixed Term		1,000,000	
Bank of Scotland	UK	A+	F1	1 year	04/03/2019	21/02/2020	1 year	1,000,000	1.25%		Fixed Term		1,000,000	
Bank of Scotland	UK	A+	F1	1 year	27/03/2019	27/03/2020	1 year	1,000,000	1.25%		Fixed Term		1,000,000	
Bank of Scotland	UK	A+	F1	1 year	15/04/2019	15/04/2020	1 year	1,000,000	1.25%		Fixed Term		1,000,000	
<b>Bank of Scotland Total</b>								<b>4,000,000</b>		10.16%				
Barclays Bank 95 Day Notice	UK	A+	F1	6 months	20/06/2019	23/09/2019	3 months	1,000,000	0.95%		95 Day Notice	1,000,000		
<b>Barclays Bank Total</b>								<b>1,000,000</b>		2.54%				
Blackrock MMF	n/a	AAA	mmf (Eq)	5 years	28/06/2019	01/07/2019	Overnight	250,000	0.72%		MMF	250,000		
<b>Blackrock MMF Total</b>								<b>250,000</b>		0.63%				
BNP Paribas MMF	n/a	AAA	mmf (Eq)	5 years	28/06/2019	01/07/2019	Overnight	1,000,000	0.74%		MMF	1,000,000		
<b>BNP Paribas MMF Total</b>								<b>1,000,000</b>		2.54%				
Coventry Building Society	UK	A-	F1	6 months	20/06/2019	20/03/2020	9 months	1,000,000	0.96%		Fixed Term	1,000,000		
<b>Coventry Building Society Total</b>								<b>1,000,000</b>		2.54%				
Deutsche MMF	n/a	AAA	mmf	5 years	28/06/2019	01/07/2019	Overnight	250,000	0.74%		MMF	250,000		
<b>Deutsche MMF Total</b>								<b>250,000</b>		0.63%				
Federated MMF	n/a	AAA	mmf	5 years	28/06/2019	01/07/2019	Overnight	3,863,000	0.76%		MMF	3,863,000		
<b>Federated MMF Total</b>								<b>3,863,000</b>		9.81%				
Goldman Sachs Int'l Bank	UK	A	F1	6 months	15/03/2019	16/12/2019	9 months	2,000,000	1.07%		Fixed Term		2,000,000	
<b>Goldman Sachs Int'l Bank Total</b>								<b>2,000,000</b>		5.08%				
Lloyds Bank	UK	A+	F1	1 year	15/05/2019	15/05/2020	1 year	2,000,000	1.25%		Fixed Term		2,000,000	
Lloyds Bank	UK	A+	F1	1 year	28/05/2019	28/05/2020	1 year	1,000,000	1.25%		Fixed Term		1,000,000	
<b>Lloyds Bank Total</b>								<b>3,000,000</b>		7.62%				
Morgan Stanley MMF	n/a	AAA	mmf	5 years	28/06/2019	01/07/2019	Overnight	1,000,000	0.74%		MMF	1,000,000		
<b>Morgan Stanley MMF Total</b>								<b>1,000,000</b>		2.54%				
National Westminster Bank	UK	A+	F1	1 year	25/03/2019	25/03/2020	1 year	2,000,000	1.08%		CD		2,000,000	
National Westminster Bank	UK	A+	F1	1 year	07/05/2019	07/05/2020	1 year	2,000,000	1.08%		CD		2,000,000	
National Westminster Bank	UK	A+	F1	1 year	28/06/2019	01/07/2019	Overnight	10,000	0.20%		Call	10,000		
<b>National Westminster Bank Total</b>								<b>4,010,000</b>		10.18%				
Rabobank	Netherlands	AA-	F1+	1 year	15/01/2019	14/01/2020	1 year	2,000,000	1.16%		CD		2,000,000	
<b>Rabobank Total</b>								<b>2,000,000</b>		5.08%				
Santander UK	UK	A+	F1	6 months	23/11/2018	23/08/2019	9 Months	2,000,000	1.13%		Fixed Term		2,000,000	
Santander UK	UK	A+	F1	6 months	05/12/2018	05/09/2019	9 Months	2,000,000	1.13%		Fixed Term		2,000,000	
Santander UK	UK	A+	F1	6 months	05/03/2019	05/12/2019	9 Months	1,000,000	1.13%		Fixed Term		1,000,000	
Santander UK	UK	A+	F1	6 months	02/04/2019	02/01/2020	9 Months	1,000,000	1.13%		Fixed Term		1,000,000	
Santander UK	UK	A+	F1	6 months	17/05/2019	17/02/2020	9 Months	1,000,000	1.13%		Fixed Term		1,000,000	
<b>Santander UK Total</b>								<b>7,000,000</b>		17.78%				
Standard Chartered Bank	UK	A+	F1	6 months	05/04/2019	04/10/2019	6 Months	2,000,000	1.00%		CD		2,000,000	
<b>Standard Chartered Bank Total</b>								<b>2,000,000</b>		5.08%				
Toronto Dominion Bank	Canada	AA-	F1+	1 year	11/10/2018	11/10/2019	1 year	2,000,000	1.03%		CD		2,000,000	
<b>Toronto Dominion Bank Total</b>								<b>2,000,000</b>		5.08%				
Hermes Property Unit Trust	n/a	n/a	n/a	n/a	29/09/2017	n/a	n/a	1,000,000	3.47%		Property Fund		1,000,000	
<b>Hermes Property Unit Trust Total</b>								<b>1,000,000</b>		2.54%				
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	29/06/2017	n/a	n/a	1,000,000	4.32%		Property Fund		1,000,000	
Local Authorities' Property Fund	n/a	n/a	n/a	n/a	30/05/2018	n/a	n/a	1,000,000	4.01%		Property Fund		1,000,000	
<b>Local Authorities' Property Fund Total</b>								<b>2,000,000</b>		5.08%				
Lothbury Property Trust	n/a	n/a	n/a	n/a	06/07/2017	n/a	n/a	1,000,000	3.08%		Property Fund		1,000,000	
Lothbury Property Trust	n/a	n/a	n/a	n/a	02/07/2018	n/a	n/a	1,000,000	2.99%		Property Fund		1,000,000	
<b>Lothbury Property Trust Total</b>								<b>2,000,000</b>		5.08%				
<b>Total invested</b>								<b>39,373,000</b>		<b>100.00%</b>		<b>8,373,000</b>	<b>26,000,000</b>	<b>5,000,000</b>

Number of investments	30	Average investment value £		1,312,000	
Number of counter parties	18	Average counter party investment £		2,187,000	
<b>Group exposures:</b>		<b>Core £</b>	<b>Cash £</b>	<b>Combined £</b>	<b>%</b>
Royal Bank of Scotland + National Westminster (UK Nationalised 20%)		4,000,000	10,000	4,010,000	10.18
Bank of Scotland + Lloyds (20%)		7,000,000	-	7,000,000	17.78
<b>Property Funds Total</b>			<b>£</b>	<b>%</b>	
			5,000,000	12.70	

Total non-specified investments should be less than 60% of Investment balances 12.70%

**Notes:**

CD = Certificate of Deposit, MMF = Money Market Fund

Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update May 2019.

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## Tonbridge and Malling Borough Council Lending List

Checked against Link's Duration Matrix dated 28/06/19

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

Counterparty	Sovereign	Sovereign Rating [1]	Fitch Long Term	Fitch Short Term	UK Classification	Exposure Limit	Link Duration [2]	
							Credit Rating	Post CDS
Bank of Montreal	Canada	AAA	AA-	F1+	n/a	£7m	1 year	1 year
Toronto Dominion Bank	Canada	AAA	AA-	F1+	n/a	£7m	1 year	1 year
Danske Bank	Denmark	AAA	A	F1	n/a	£7m	6 months	6 months
Nordea Bank Abp	Finland	AA+	AA-	F1+	n/a	£7m	1 year	1 year
Rabobank (Cooperatieve Rabobank U.A.)	Netherlands	AAA	AA-	F1+	n/a	£7m	1 year	1 year
ING Bank	Netherlands	AAA	AA-	F1+	n/a	£7m	1 year	1 year
Svenska Handelsbanken AB (Group Limit with Handelsbanken Plc £7m)	Sweden	AAA	AA	F1+	n/a	£7m	1 year	1 year
Bank of Scotland (Group limit BOS & Lloyds £7m)	UK	AA	A+	F1	Ring-fenced	£7m	1 year	1 year
Barclays Bank (Group Limit Barclays and Barclays UK £7m)	UK	AA	A+	F1	Non-RF	£7m	6 months	6 months
Barclays Bank UK (Group Limit Barclays and Barclays UK £7m)	UK	AA	A+	F1	Ring-fenced	£7m	6 months	6 months
Goldman Sachs Int'l Bank	UK	AA	A	F1	Exempt	£7m	6 months	6 months
Handelsbanken Plc (Group Limit with Svenska Handelsbanken AB £7m)	UK	AA	AA	F1+	Exempt	£7m	1 year	1 year
HSBC UK Bank	UK	AA	AA-	F1+	Ring-fenced	£7m	1 year	1 year
Lloyds Bank (Group limit BOS & Lloyds £7m)	UK	AA	A+	F1	Ring-fenced	£7m	1 year	1 year
Santander UK	UK	AA	A+	F1	Ring-fenced	£7m	6 months	6 months
Standard Chartered Bank	UK	AA	A+	F1	Exempt	£7m	6 months	6 months
Coventry Building Society	UK	AA	A-	F1	Exempt	£7m	6 months	6 months
Nationwide Building Society	UK	AA	A	F1	Exempt	£7m	6 months	6 months
National Westminster Bank (Group limit Nat West and RBS £7m). UK Nationalised.	UK	AA	A+	F1	Ring-fenced	£7m	1 year	1 year
The Royal Bank of Scotland (Group limit Nat West and RBS £7m). UK Nationalised.	UK	AA	A+	F1	Ring-fenced	£7m	1 year	1 year
UK Debt Management Office including Treasury Bills	UK	AA	n/a	n/a	n/a	No limit	5 years	5 years
UK Treasury Sovereign Bonds (Gilts)	UK	AA	n/a	n/a	n/a	£16m/£8m	5 years	5 years
UK Local Authority (per authority)	UK	AA	n/a	n/a	n/a	£7m	5 years	5 years

[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 sovereign limit of 20% or £7m.

[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 Link'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.

**Money Market Funds**  
Minimum investment criteria AAA

Fund Name	Moody	Fitch	S&P	Exposure Limit
Blackrock	AAA	-	AAA	£7m
BNP Paribas	-	-	AAA	£7m
Deutsche Fund	AAA	AAA	AAA	£7m
Federated	-	AAA	AAA	£7m
Insight Liquidity (Group limit IL & ILP of £7m)	-	AAA	AAA	£7m
Morgan Stanley	AAA	AAA	AAA	£7m

**Enhanced Cash Funds**  
Minimum investment criteria AAA

Fund Name	Moody	Fitch	S&P	Exposure Limit
Insight Liquidity Plus (Group limit IL & ILP £7m)	-	-	AAAf /S1	£3.5m

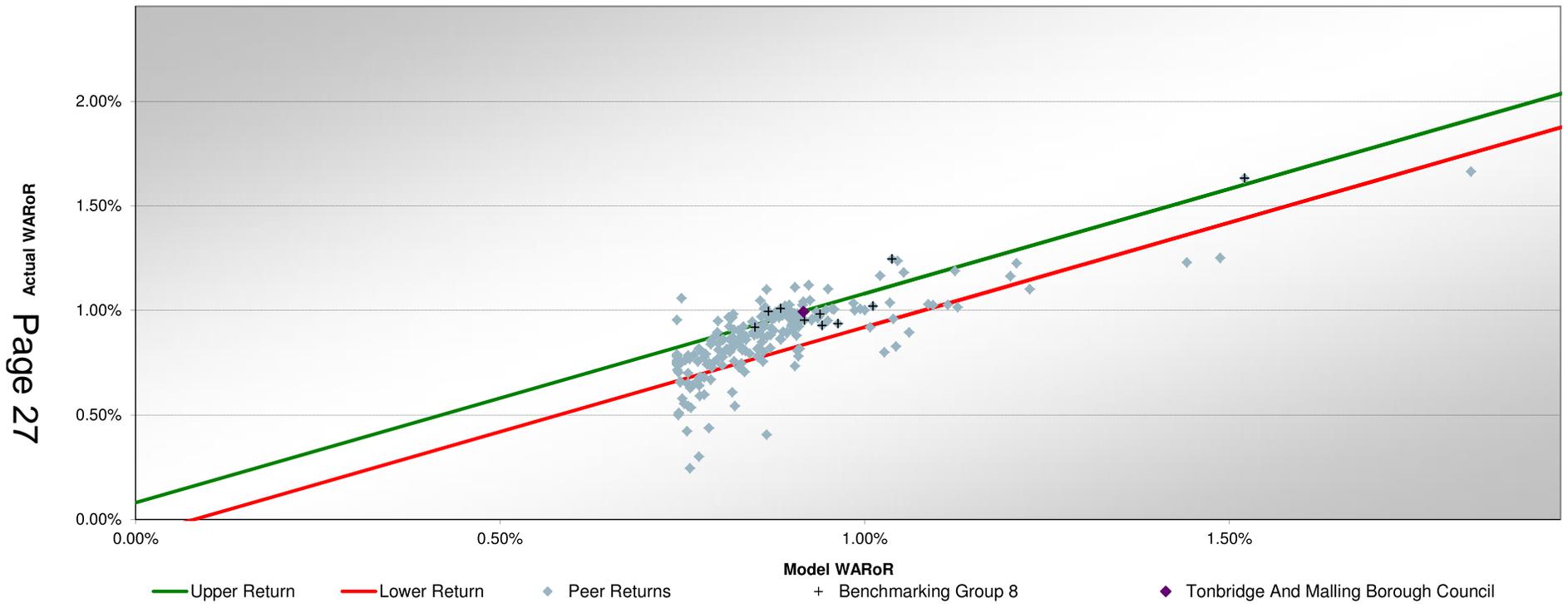
Approved by Director of Finance and Transformation  
1st July 2019

No Change

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Tonbridge And Malling Borough Council

Population Returns against Model Returns March 2019



Page 27

	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge And Malling Borough Council	0.99%	0.92%	0.08%	0.84%	1.00%	Inline

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**Tonbridge and Malling Borough Council**

**Treasury Management Annual Report 2018/19**

## **1.1 Introduction**

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.1.2 During 2018/19 the minimum reporting requirements were that full Council should receive the following treasury reports:

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

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2018/19 financial year. Treasury performance was also considered at the Finance, Innovation and Property Advisory Board through the regular Financial Planning and Control reports.

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

1.1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to full Council.

## **1.2 Economic Background**

1.2.1 After weak economic growth in the UK of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% y/y confirming that the UK was the third fastest growing economy in the G7 in quarter 4.

1.2.2 After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely

that Bank Rate would be cut to support growth. Nevertheless, MPC concerns have been increasing over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, excluding bonuses, in the three months to December before falling only marginally to 3.4% in the three months to January. Employers increased hiring at the fastest pace in more than three years in the three months to January 2019 as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

1.2.3 CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019 Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

1.2.4 The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving as the difference between the two figures is now around 1.5%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

### 1.3 Treasury Position at 31 March 2019

1.3.1 At the beginning and the end of 2018/19 the Council's debt and investment position was as follows:

	31 March 2018 £m	Rate / Return %	Average duration Days	31 March 2019 £m	Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
<b>Total debt</b>	<b>0.0</b>	-	-	<b>0.0</b>	-	-
Fixed rate investments:						
Cash flow surpluses	-	-	-	-	-	-
Core cash	13.0	0.80	118	16.0	1.06	155
Variable rate investments:						
Cash flow surpluses	6.4	0.47	3	7.4	0.78	1
Core cash	7.0	0.60	50	8.0	1.06	219
Sub-total	26.4	0.67	72	31.4	0.99	134
Long term investments:						
Property Funds	3.0	3.73	-	5.0	3.55	-
<b>Total investments</b>	<b>29.4</b>	<b>1.47</b>	-	<b>36.4</b>	<b>2.04</b>	-

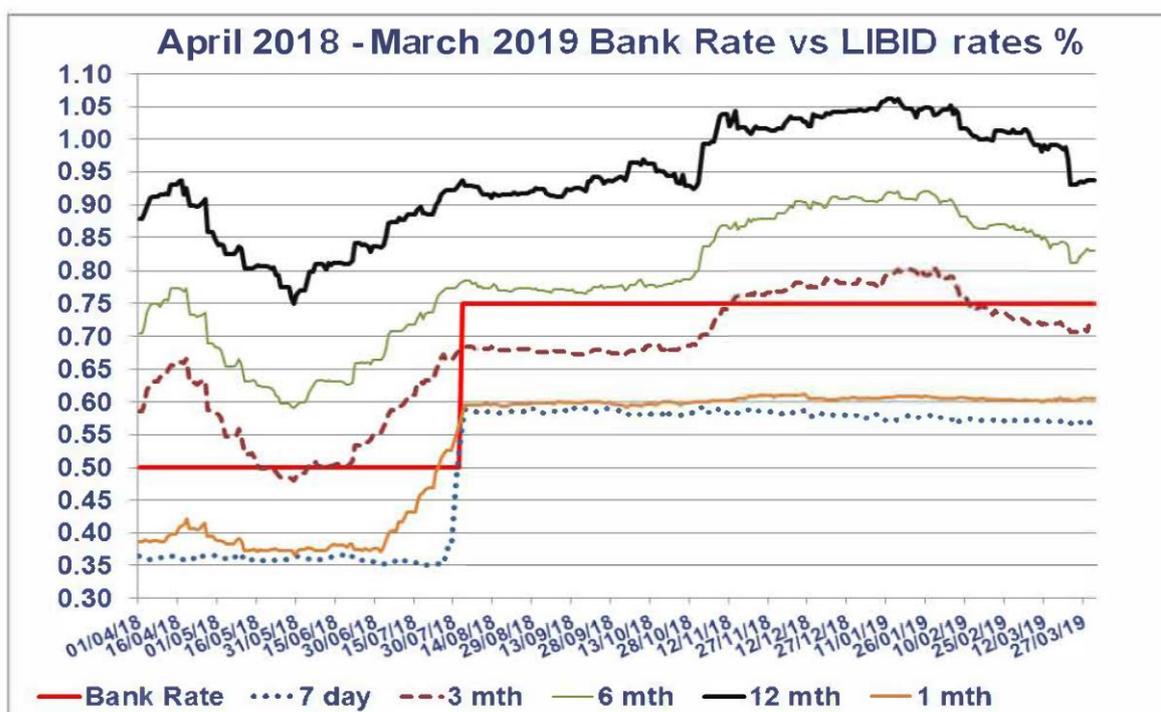
- 1.3.2 The rise in investment balances reflects: surpluses on business rates and council tax collection funds due to be distributed in 2019/20; unspent provisions for business rate appeals which have yet to be determined by the Valuation Office; reprogramming of some planned capital expenditure; lead authority for shared expenditure anticipated in 2019/20 (West Kent Partnership); and ad-hoc disposals used to part fund capital expenditure in 2018/19.

#### 1.4 The Strategy for 2018/19

- 1.4.1 In November 2017, the Bank of England returned the Bank rate to 0.5%. The expectation for interest rates within the treasury management strategy for 2018/19 anticipated the next rise in the Bank Rate in the fourth quarter of 2018. Bank Rate was increased to 0.75% in August 2018. The low interest rate environment and bank regulatory changes in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby term deposits with financial institutions would continue to be dominated by low counterparty risk considerations. Additional property fund investments would be undertaken from 'new money' that became available derived from the sale of existing property assets or other windfalls.

#### 1.5 Investment Rates in 2018/19

- 1.5.1 Rates offered by banks for deposits began to rise from their low point at the end of May 2018 in anticipation of the August Bank Rate rise. Since August, bank offers have continued to drift up wards peaking in January 2019. More recently offers have been declining in response to weaker economic growth in the UK, Brexit driven uncertainty and concerns for the global economy. Current market expectation is bank rate remaining at 0.75% before rising in 2020.



## 1.6 Investment Outturn for 2018/19

- 1.6.1 The Council's investment policy sets out the approach for choosing investment counter-parties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2018/19 Annual Investment Strategy was approved by Council in February 2018 and was subjected to a mid-year review in October 2018. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to a number of constraints, discretion to extend investment duration by up to six months over the Council's external treasury advisor's suggested duration was also retained.
- 1.6.2 **Cash flow investment.** In 2018/19 cash flow surpluses averaged £15.5m and earned an average rate of return of 0.73%. The average 7-day LIBID rate, used to compare performance, was 0.51%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and as a consequence are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.
- 1.6.3 **Core cash investment.** In 2018/19 core cash averaged £23.0m and earned an average rate of return of 0.91%. The 3-month LIBID rate used as a comparator was 0.68%. Core cash comprises the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.
- 1.6.4 **Long term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long term investment (equities, bonds and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.
- 1.6.5 At the start of the year £3m was invested in property investment funds and a further £2m invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments are expected in the future as resources become available from asset disposals and other windfalls.
- 1.6.6 In 2018/19 investment in property funds averaged £4.6m and income of £162,908 was received which represents an annualised return of 3.55%.
- 1.6.7 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying

and selling property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price. Economic growth in the UK slowed in 2018/19 as did the rate at which fund sale values appreciated. A fall in sale values was recorded at some month ends especially during the second half of 2018/19. Nevertheless, since inception, the overall progress towards breakeven is still encouraging.

<b>Property fund</b> (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price  (a) £	Sale value at date of purchase  (b) £	Sale value March 2019  (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	973,300	(26,700)
Lothbury (Primary, July 2017)	1,000,000	927,700	975,900	(24,100)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	1,009,900	9,900
LAPF (Primary, June 2018)	1,000,000	922,200	933,200	(66,800)
Lothbury (Secondary, July 2018)	1,000,000	973,000	957,000	(43,000)
Total	5,000,000	4,684,100	4,849,300	(150,700)

1.6.8 **Summary.** Investment performance for the year 2018/19 is summarised in the table below:

	2018/19 Average balance  £m	Return  %	2018/19 Interest/ dividends earned £	2018/19 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	15.5	0.73	112,189	90,000	22,189
Core cash	23.0	0.91	210,690	190,000	20,690
Long term investment	4.6	3.55	162,908	172,000	(9,092)
Total	43.1	1.13	485,787	452,000	33,787

- 1.6.9 The overall performance of the Authority's investments bettered the revised estimates by £33,787 (£108,787 when compared to the 2018/19 original estimates).
- 1.6.10 In finalising the Council's revised estimates the income estimate for cash flow was increased from £58,000 to £90,000; the return from core cash was increased from £124,000 to 190,000; and income from property funds reduced from £195,000 to £172,000.
- 1.6.11 The original estimate assumed Bank Rate would rise December 2018. The increase in income from cash flow surpluses and core cash reflects the impact of an earlier than expected rise in Bank Rate in August 2018 in combination with higher than expected balances due to Valuation Office delays in processing business rate appeals. Higher than expected balances continued to year end. Reduced income from property funds reflects the revised timetable in respect of the sale of the River Walk Offices and a marginally lower return in 2018/19 compared to 2017/18 (3.55% vs 3.73%).

## 1.7 Compliance with the Annual Investment Strategy

- 1.7.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counter-party credit criteria; maximum exposure limits in respect of sovereigns, counter-parties and group of related counter-party; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2018 to March 2019 the requirements set out in the Annual Investment Strategy for 2018/19, as approved by Council in February 2018, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2018/19.

## 1.8 Treasury and Prudential Codes of Practice

- 1.8.1 Updated Treasury Management and Prudential codes of practice were published by CIPFA on 21 December 2017. Whilst the codes apply to the 2018/19 financial year, given the timing of their release, CIPFA's Treasury and Capital Management Panel recommended the requirements of both Codes be 'implemented as soon as possible' and acknowledged that they may not be 'fully implemented until' the '2019/20 financial year'.
- 1.8.2 The Codes have been updated to address concerns arising from the Localism Act 2011 (commercialism agenda). The focus of both updates is to ensure the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. Non-financial assets will include the purchase of property to rent, shares and loans in subsidiaries or other outsourcing structures such as IT or building services providers.
- 1.8.3 Council adopted the December 2017 edition of the Codes in October 2018 and the requirements of the Codes have been taken into account and reflected as appropriate in this annual review and 2019/20 update of both the Capital Strategy and the Treasury Management and Annual Investment Strategy.

- 1.8.4 The Council has no material non-financial investments. Property funds, as opposed to directly owned property, are used as part of the Council's treasury management activity.

Financial Services  
May 2019

**Prudential and Treasury Indicators**

<b>1 Prudential Indicators</b>	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Actual £'000
Capital expenditure	1,834	4,336	3,587
Ratio of financing costs to net revenue stream	-2.46%	-2.89%	-3.51%
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	£0.48	£0.20	£0.20

<b>2 Treasury Management Indicators</b>	2017/18 Actual £'000	2018/19 Original £'000	2018/19 Actual £'000
Authorised limit for external debt:			
Borrowing	nil	5,000	nil
Other long term liabilities	nil	nil	nil
Total	nil	5,000	nil
Operational boundary for external debt:			
Borrowing	nil	2,000	nil
Other long term liabilities	nil	nil	nil
Total	nil	2,000	nil
Actual external debt	nil	Nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	nil
Upper limit for variable rate exposure under one year at the year end	13,434 (45.6%)	40 – 100%	15,411 (42.3%)
Upper limit for total principal sums invested for over 365 days	3,000 (10.2%)	60%	5,000 (13.7%)

<b>3 Maturity structure of new fixed rate borrowing during 2018/19</b>	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

#### Report of the Management Team

#### Part 1- Public

#### Delegated

### 1 RISK MANAGEMENT

**An update on the risk management process and the Strategic Risk Register. Members are also advised of a planned training session on risk management.**

#### 1.1 Introduction

1.1.1 The Risk Management Strategy sets out the Council's risk management objectives and details the roles and responsibilities of officers, Members and the Council's partners in the identification, evaluation and cost-effective control of risks.

1.1.2 The Council's risk management arrangements are designed 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.

1.1.3 The current Risk Management Strategy was recommended by this Committee in January and subsequently adopted by Full Council on 19 February 2019.

#### 1.2 Risk Management Escalation Process

1.2.1 Effectively risks are assessed/scored in terms of their likelihood/impact.

1.2.2 Any risk evaluated as 'High Risk' (score of 15 or above) will be deemed by the Council to be beyond 'risk tolerance' and to have exceeded its 'risk appetite' and will be escalated immediately. Such risks should be added to the service's risk register and discussed at the earliest opportunity within the Service Management Team (SMT) to inform a decision as to whether this should be escalated to Management Team by the respective Service Director. Management Team should then consider whether the risk is significant enough for inclusion in the Strategic Risk Register and action this if relevant. A record should be maintained of risks discussed at both SMTs and Management Team and the outcome of those discussions.

- 1.2.3 Similarly risks identified as “Medium Risk” may be escalated to the appropriate SMT for advice and to ensure they are kept fully aware of the current risks being faced. Risks determined as “Low Risk” should be managed within the service team. It is recommended that SMTs consider periodic review or moderation processes for Service Risk Registers to ensure they are happy with the scores risks have been given and confirm whether there are ‘Medium’ or ‘Low’ risks they wish to consider further.

### **1.3 Strategic Risk Register**

- 1.3.1 The Strategic Risk Register (SRR) is considered to be a ‘live’ document and is updated, as often as is required, by the Management Team. An update of the current strategic risks and how they are being managed was reported to Cabinet in March and a “snapshot” of the SRR as at the time of writing is appended at **[Annex 1]**.
- 1.3.2 No new risks have been added to the SRR either by Management Team directly or following escalation by SMTs since the report to Cabinet in March. Members are asked to note the updates in red font since the last iteration of the Register.
- 1.3.3 Members should note that the risk IT Infrastructure has been downgraded from red to amber following significant progress with the digital agenda. There are presently two risks that are classified as red.
- 1.3.4 To give Members some reassurance as to the effectiveness of the regime outcomes from the risk management escalation process are reported bi-annually to the July and January meetings of this Committee unless that is there is something that needs to be brought to Members’ attention in the interim.

### **1.4 Ongoing Risks and Risks Identified by Service Management Teams and Management Team**

- 1.4.1 A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to this Committee in January 2019 is appended at **[Annex 2]**.

### **1.5 Member Training**

- 1.5.1 The Strategy places specific responsibility on this Committee in managing and promoting the risk management process. Paragraph 5.3 of the Strategy says:

*“The Chairman of the Audit Committee will take a lead role in promoting the application of sound risk management practices across the Council.*

*Training will be provided periodically for all Audit Committee members.*

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

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

1.5.2 In order to assist Members in discharging their responsibilities an interactive workshop, led by our insurers, on risk management is to be arranged (hopefully in October) on the following lines:

- 1) *Overview of risk management in local authorities, including recent global trends and their relevance to TMBC.*
- 2) *The Risk Management Process at the Council and the key steps for identifying, quantifying and mitigating risk.*
- 3) *The roles and responsibilities for Members in overseeing effective risk management.*
- 4) *Risk Horizon Scanning; a discussion around the key risks emerging for the Council including a discussion around the current Strategic Risk Register.*

## **1.6 Legal Implications**

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

1.6.2 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.

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

1.7.1 Financial issues may arise in mitigating risk which will be managed within existing budget resources or reported to Members if this is not possible.

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

## **1.8 Risk Assessment**

1.8.1 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.

## **1.9 Equality Impact Assessment**

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

## 1.10 Policy Considerations

- Asset Management
- Business Continuity/Resilience
- Community
- Customer Contact
- Health and Safety
- Human Resources

## 1.11 Recommendations

### 1.11.1 Members are asked to:

- 1) Note the updates to the Strategic Risk Register since the last iteration.
- 2) Note the planned training session on risk management.

Background papers:

contact: Sharon Shelton

Nil

Julie Beilby  
Chief Executive

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	Risk Assessment form completed?	Review Date
1	Safeguarding and PREVENT	S, R	Significant 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 is with 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. The majority of actions identified from the Audit review have now been completed and signed off. A secure database with secure access for recording details of all safeguarding concerns and referrals has been developed and is currently in the testing phase. The database is now live.	3	4	12	12	Posts eligible for DBS checks being reviewed by Legal Services and a Central recording system being commissioned. A revised implementation date of 30/5/18 was agreed to create a single TMBC DBS register and complete any necessary DBS checks. UPDATE: This work has progressed with a revised draft list of posts eligible for DBS checks completed. Formal review due in September 2018. UPDATE Dec 18 MT has agreed revised list of posts requiring DBS checks. Safeguarding Audit review is currently underway for completion in 18/19 financial year. UPDATE June 2019- Draft policy on procedures for DBS checks will be considered by MT in July. Audit has been completed.	Safeguarding Policy	Chief Executive		Jul-20
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. Refreshed version of MTFS considered by Cabinet in Feb 2019 and approved by Full Council as part of Budget Setting. Funding gap circa £550k. Negative RSG 2019/20 removed. Taxbase updated Dec 2018 showing growth. NHF figures received and exceed initial expectations as parameters unchanged. With Kent and Medway authorities, bid for Business Rate Retention Pilot 19/20 unsuccessful. Business rates RVs and appeals reviewed. Now above Business Rate Baseline. Council tax set by Full Council with a 2.99% increase for 2019/20.	4	3	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. O&S Committee Jan 18 identified programme of work to identify potential savings. Tendering of Waste contract has delivered savings to contribute. Feb 2019 - MTFS shows savings to be circa £550k over 10 year plan. Cabinet and Council updated STS. O&S reviews to continue as planned. Fair Funding Review currently underway and need to await results to see wider impact on finances into medium term. UPDATE: Report to Cabinet June 2019 updating on latest position. MTFS now showing gap of circa £600k. Cabinet asked to consider how funding gap to be addressed; with primary focus on first tranche. Cabinet also updated that there is doubt as to when Fair Funding Review and Spending Review will happen. This gives uncertainty for another year.	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation		Oct-19
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. A number of key threats to business continuity including: border delays and congestion impacts on the Kent road network creating difficulties for local businesses, TMBC staff and potential air quality issues; loss of KCC staff e.g. welfare/social services support; potential loss of TMBC waste contract workforce, general increase in costs as imports become restricted.	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. The potential for No Deal BREXIT could have far wider and more impactful implications that has been factored into MTFS. Bid for BREXIT funding compiled, but Government awarded funding to all district councils on a like for like basis.	4	4	16	12	Work with partner organisations via Kent Resilience Forum continuing. O&S Committee report (Jan 2019) updated Members and identified key issues. Council represented on key County Partnership Groups overseeing Brexit implications including Strategic & Tactical Coordinating Groups. Business Impact Assessments completed. Plans in place, including purchase of additional laptops, to enable critical services, to be maintained if major disruption to road networks. Brexit Emergency Planning exercise early March 2019. UPDATE: Funding was received from Government. Brexit 'deadline' now 31 October 2019. Work still taking place with partners.	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team		Oct-19
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. Remaining funding gap now assessed as £550k.	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. O&S programme to be supported in order to deliver savings to contribute to STS. UPDATE: MTFS and STS updated by Members Feb 2019, and further report to Cabinet June 2019.	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/ Management Team		Oct-19

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	Risk Assessment form completed?	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 completed. Update and review of evidence base completed for submission, with on-going monitoring. Specialist consultants engaged where appropriate and counsel fully engaged on key issues for examination. 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 key delivery stakeholders and service and infrastructure providers. <b>UPDATE July 19: First stage of responses to Inspector's questions submitted and second stage due on 31/07/19. Member briefing on Local Plan scheduled for July.</b>	4	3	12	9	Final refinement of evidence and narrowing down of sites to address development needs. Response to issues raised by Members at PTAB in June. Liaison with adjoining authorities and other agencies. Presentation of draft local plan for Member consideration planned for PTAB meeting in July 18, followed by Cabinet and Council in September. Regulation 19 consultation programmed for October/November with submission of Local Plan by End of 2018. Local Plan approved by full Council in September 2018. Reg 19 consultation concluded in November 2018 with a view to submitting plan to Sec of State by 23 Jan 2019. <b>UPDATE Mar 2019</b> Local Plan submitted on time on 23 Jan 2019. Examination preparation activity now underway including dialogue with appointed Inspectors. <b>UPDATE July 2019:</b> Inspector raised a number of questions in May, which were partially responded to in June with the remaining responses scheduled for submission in July. Further consultation has been requested by the Inspector on all submissions by the Council since 23 January; this is likely to take place in the autumn and last for 6 weeks. The Inspectors questions and the requirement to consult has delayed the date for the examination, which is now likely to be scheduled for early 2020.	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		Oct-19
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.	3	4	12	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. 2% pay award was agreed by Members in line with National Offer. Structural reviews agreed by GP on 26/6/17, 20/11/17, and 29/1/18. Responses to any recruitment advertisements are carefully monitored for trends. A new member of personnel staff has been recruited with specialist experience in recruitment. We continue to have a mixed response to job adverts. Further reports to GP on 25/6/18. Update Dec 18. revised methodology for recruitment into DPEHH post successful. March 2019 successful recruitment of Head of IT Update March 19. We have changed recruitment process and had positive outcomes. Pay award of 2.5% wef from April 2019 i.e. above the national award. Transitional arrangements to encourage development opportunities where appropriate.	HR Strategy Savings and Transformation Strategy	Chief Executive		Sep-19
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. <b>UPDATE:</b> Newly formed corporate Health and Safety Group picking up cross organisational issues and feeding back to Management Team and H&S Officer. <b>UPDATE July 2019</b> All services are required to review lone working procedures and risk assessments following review of corporate policy. Staff survey being drafted to consider impact of work on wellbeing and whether support services meet needs and communication channels are adequate.	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health		Dec-19
8	Compliance with legislation inc. new GDPR requirements	F, R	Failure to meet legislative requirements or statutory obligations may result in loss of personal data, financial penalties and/or damage to the Council's reputation.	01/04/2017	Nominated Senior Information Risk Officer, and Data Protection Officer Compliance/legal assessment of decisions included in all Board reports Constitution General Data Protection Regulation requirements are being addressed by Information Governance Group & Procurement OSG 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 to Officers & Members. Officers to ensure maintenance of professional training requirements. <b>UPDATE:</b> GDPR training for Members 9 July 2018 (All Officers were required to complete e-learning GDPR module prior to implementation of GDPR in May 2018). Revised constitution approved by Members July 2018. Audit of GDPR underway March 2019. <b>Updated online training on GDPR &amp; Cyber Awareness being tested by Information Governance OSG prior to being rolled out to all staff July 2019</b>	Need to ensure that all 7 key themes of the Corporate Strategy are delivered in lawful manner.	Director of Central Services and Deputy Chief Executive		Jun-20

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	Risk Assessment form completed?	Review Date
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. Information Governance Group work underway. Data held by the Council being reviewed and cleansed. Work underway to mitigate global processor flaw issues leading to Spectre and Meltdown attacks. Cyber awareness training rolled out to all staff. Varonis software being used to better control the risk of access to confidential unstructured data on shared drives. Member cyber champion appointed. <b>UPDATE: Renewal and upgrade of the system to collect and monitor event logs in respect of cyber activity is required following the LGA Stocktake. Our current system, Loglogic, is end of life and no longer supported by the supplier. If any system component should fail it cannot be repaired leaving us without the tools required to provide timely problem resolution to malware outbreaks or adequately investigate security incidents.</b>	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. TMBC have been involved in developing specification for Kent Connects cyber security "recovery" contract. Continued rollout of mitigation for processor flaw issues dealt with as priority and in line with guidance. Varonis software procured, installed and being utilised to better control the risk of access to confidential unstructured data on shared drives. Cyber security now being built into disaster recovery/business continuity plans. Cyber specific risk register now maintained which provides more detail on risks faced, mitigations in place and actions required. <b>UPDATE: Improved Cyber security training being rolled out to staff and Members July 2019. Evaluation of replacement for Loglogic underway.</b>	IT Strategy	Director of Finance and Transformation		Oct-19
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. <b>UPDATE: Digital Strategy drafted for Member consideration - July 2019.</b>	3	4	12	12	New IT Strategy for period 2018-22. 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. iPads for Members have been deployed. iPads and citrix rolled out to MT. New IT Strategy approved by Members in May 2018 who placed a specific emphasis on website improvements. Website work commissioned by SDS and report to FIPAB Jan 2019. <b>UPDATE: New Head of IT appointed with significant experience of implementation of digital strategies. Significant progress by Digital officer group; business process mapping underway across the Council to identify opportunities. Website work underway, with officer group looking at the 'business' specification. Iteration with Member group to be initiated. Member group appointed. Presentation and draft digital strategy presented to FIPAB 17 July 2019.</b>	IT Strategy	Director of Finance and Transformation		Oct-19
11	Elections	R	Failure to comply with legislation, miscoums and significant reputational impact.	01/04/2017	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress.	2	4	8	8	Broadening of staff skills and experience to build resilience. <b>UPDATE: Borough Council Election and European Election delivered successfully.</b>	Statutory requirement	Chief Executive		Jan-20
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, Mutual Aid Agreement and Partnership Agreement with Kent Resilience Team (Please see Business Continuity Plan and Corporate Risk Register for more detail). Emergency Planning Support Officer in post and new Duty Emergency Coordinator system introduced to provide greater resilience.	3	4	12	12	Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis. Members of Management Team and Duty Emergency Coordinators undertaking advanced training organised by Kent Resilience Team training. 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. <b>UPDATE: New Duty Officer rota in place to support Duty Emergency Coordinators out of hours. Mutual Aid Policy reviewed across Kent Districts. Review of critical services in Business Continuity Plan completed. Emergency Plan refreshed and reissued. UPDATE: Business Continuity Plan completed, approved by Management Team and shared with key staff. Director level attendance at all Kent Resilience Forum Board meetings. All Duty Officers trained in role. Out of Hours manual reviewed and updated.</b>	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services		Jun-20
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 agendas by CE / Corporate Services manager. Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings. Update DEC 18 - County wide devolution discussions have been formally ceased. Horizon scanning and continued participation in Kent Leaders and CE meetings is ongoing.	3	3	9	9	N/A	External risk/national issue	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	Risk Assessment form completed?	Review Date
14	Partnerships inc. shared services	F, R, S	Reliance on partners to deliver key services, including private sector companies. Could include specific partnership or shared service models such as the Leisure Trust 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. Private sector partnerships failing having consequences for service delivery.	01/04/2017	Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate. Good communication with staff. In the light of the Carillon situation (which does not affect TMBC directly) maintain awareness of issues relating to private sector partners and plans formulated for service delivery in the event of failure via business continuity.	3	3	9	9	FIPAB Jan 2018 updated on GBC's decision to pull out of progressing shared service for Revs and Bens. Review of Revs and Bens being conducted to ensure service continuity. New Waste Services Contract in partnership with Urbaser, TWBC and KCC commenced 1st March 2019. Formal Inter Authority Agreement and Partnership Agreement in place. Ground Maintenance Contract extended in light of good performance of contractor. UPDATE: Gravesham Borough Council gave notice to cease shared management arrangement for revenue and benefits management - arrangement to cease 30 September 2019. DFT will consider staff needs and report to GP Committee as appropriate.	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, introduction of UC and 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, including purchase of flats. Review implications for new Homeless Reduction Act requirements. Concessionary charges for key services. EQIA assessment of key decisions included in all Board reports. HRA implications assessed and GPC agreed new posts to deliver service which have been recruited to. Universal Credit rolled out. Nov 18 for Tonbridge & Maidstone Job Centres. Signposting now to UC rather than HB for new working age claimants.	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. Flats purchased. Member training from DWP provided re UC Nov 2018. Continue to facilitate Welfare Reform group and widen participation from external partners so as to ensure best support for those affected by welfare reforms in T&M. UPDATE: July 2019 Further review of staffing within housing underway in response to nationally recognised increased demand as a result of impact of HRA. Consultation on the Council Tax Reduction Scheme to be launched in September 19 following report to FIPAB July 2019. Intention to move to an income banded scheme.	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-19
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. UPDATE: July 2019- series of induction and training sessions delivered to Members following local elections in May 2019	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive		As required
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. Assistance provided to Parish/Town Councils to help develop local Flood Plans. Team of Volunteer Flood Wardens in place.	3	4	12	12	UPDATE: Work with partner organisations via Kent Resilience Forum continuing. O&S Committee report (Jan 2019) updated Members and identified key issues. Council represented on key County Partnership Groups overseeing Brexit implications including Strategic Coordinating Group. UPDATE: Council Officers dial into Severe Weather Advisory Group meetings. Regular attendance at KRF training sessions. Aylesford Community Flood Plan completed/launched and training taken place. Ongoing support for Tonbridge Flood Group.	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-20
18	Contaminated Land	F, R, S	Impact on homes, public health. Residents put at risk of harm.	01/01/2018	Working with partners (EA and other) and specialist consultants to monitor potential sites and assess risk to inform action as is needed	3	4	12	9	Potential issue identified at Joco Pit, Borough Green. Residents engaged. Public sessions held Jan 2018. Report to Members Feb 2018. Additional boreholes secured and monitoring in place until May 2018. Results indicate low risk and insufficient levels to be 'part 2 contaminated land. Briefing of Members and letters/drop-in session for residents planned for June/July. Ongoing monitoring required for 12 month period before further review. Initial investigations underway in respect of Priory Wood site. UPDATE: July 2019 Joco Pit intensive monitoring coming to a conclusion and report to be prepared for Members for September SS&SAR. Appointment of contractor to	Contaminated Land Strategy	Director of Planning Housing and Environmental Health		Dec-19

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	Risk Assessment form completed?	Review Date
19	Procurement and Implementation of Waste/ Recycling Contract	F, R, S	Failure to provide new service and deliver described outcomes in accordance with contract timescales. Significant reputational risk. Risk of challenge from tenderers. Failure to achieve financial targets for garden waste scheme.	01/07/2018	Partnership arrangement with TWBC, with allocation of key tasks. Internal Project Group reports regularly to MT. Regular update reports to Members including separate Member Working Group. External advice sought from specialists on key decisions. Detailed project plan and risk register. Operational Marketing Plan in place. Inter Authority Agreement with KCC encourages improved recycling performance and shares financial risks. 3 crucial work streams have been identified (IT, Communications and Operations) and individual sub-working groups have been established to monitor and implement these work areas.	3	4	12	9	New contractor (Urbaser) appointed and commenced 1/3/19. New service delivery arrangements to be introduced from 30th September 2019, including opt-in garden waste scheme. SS&EAB 11/2/19 approved Operational Marketing Plan and Mobilisation arrangements. Contractor to produce Annual Service Plan, monitored by Partnership Manager. Garden waste charges set to encourage take up including 'early bird' deal. Government recently launched consultation on new Waste & Resources Strategy including greater consistency of collection arrangements across local authorities. Council to respond within deadline for comments.  <b>UPDATE: Contract performance to date has been satisfactory and focus now on implementation of new arrangements. Uptake of garden waste subscriptions is positive and new garden waste/food bins will be delivered to residents in July/August. Reports on progress submitted to evening meeting of SS&amp;EAB and Member Liaison Group in place. Response sent on new Government Strategy in liaison with Kent Resource Partnership.</b>	Delivery of cost effective service to meet customer needs.	Director of Street Scene, Leisure & Technical Services		Mar-20

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**Ongoing Risks and Risks Identified by Service Management Teams and Management Team**

	<b>Risk Identified</b>	<b>Background</b>	<b>Removed or ongoing</b>	<b>Reason for removal / ongoing</b>	
<b>Chief Executive and Central Services</b>	Borough Elections	Preparation for and delivering Borough and Parish Elections 03/05/19 with impact of Brexit 29/03/19	Removed	Borough and Parish Elections held, Brexit deferred until October 2019	
	European Elections	Delivery of European elections with little preparation time - Resourcing of staff, equipment and locations to hold both poll and count at short notice.	Removed	European Election held and delivered within statutory timeframes.	
<b>Finance and Transformation</b>	Billing	Printing of Council Tax, NNDR and Year end Benefit Letters outsourced to neighbouring borough council.	Removed	Billing completed in April 2019	
	Brexit	Impact on resources identified within service	Ongoing		
	Coco Compliance	Review of IT Infrastructure identified several areas of weakness for IT standards compliance	Ongoing	Number of risk removed, expected that remaining risks, once removed, will allow full compliance	
	Cyber Security	Warning received of heightened risk of attack	Ongoing	Training to be rolled out to all employees and Councillors	
	Disaster recovery	IT Disaster recovery - need to provide adequate resources	Ongoing		
	Large Contractors	Risk of large contractor failure providing services within Borough	Removed	Risk deemed to be contained at the present time	
	Supported Accommodation	Change in KCC approach for care need could have impact on ability to recover Housing Benefit Subsidy	Ongoing	Meetings arranged to assess full impact to district councils	
	Support for Waste rollout	Roll out of both new collection method and Garden Waste Service has heavily involved both IT and Financial Services to implement online facilities and links with new contractor	Ongoing	Will be removed when final rollout has been completed.	
	<b>Planning, Housing and Environmental Health</b>	No risks reported other than those on Strategic Risk Register			

**Ongoing Risks and Risks Identified by Service Management Teams and Management Team**

		<b>Risk Identified</b>	<b>Background</b>	<b>Removed or ongoing</b>	<b>Reason for removal / ongoing</b>
<b>Page 48</b>	<b>Street Scene, Leisure and Technical Services</b>	Operation Fennel	Impact of no deal Brexit on road network linked to Eurotunnel/Dover port. Particular focus for TMBC on M20 and M26. Risks relate to business continuity, media & comms and staff resourcing .	Ongoing	Brexit exercise (Loki) for 2nd tier Officers undertaken March 2019. Remote access capabilities reviewed, and meeting held with contractors to discuss implications/contingencies. Ongoing attendance at Strategic/Tactical Coordinating Group meetings.
		TSP Outdoor pool	Significant water leak identified at outdoor pool. Risk of long delay to opening outdoor pool and associated loss of income/adverse customer reaction	Removed	Whilst exact cause of leak was not able to be determined the issue was resolved in liaison with Property Services and the Leisure Trust
		Out of Hours Guidance	Guidance provided to Duty Officers in OOH document for dealing with hazardous waste spillages not adequate following incident	Removed	Updated guidance now contained in OOH Manual.
		Legionella	Problem identified in LLC Dry change showers.	Ongoing	Showers remain closed to public while issue being addressed. Action being taken in accordance with HSE guidance. Latest measures include pasteurisation of system, sampling and introduction of dosing. Regular review meetings undertaken and external consultant appointed.
		Castle Motte Trees	Following high winds a tree fell and caused significant damage. Tree removed and pathway repaired. Path closed to public until works complete. Historic England consulted and have recommended removal of all trees on motte to protect ancient monument from future damage.	Ongoing	Expert Tree Survey inspection being undertaken prior to a report to a future meeting of CHAB. Local Members and Tonbridge Historical Society being consulted.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

#### Report of the Management Team

#### Part 1- Public

#### Delegated

### 1 ANNUAL GOVERNANCE STATEMENT 2018/19

**This report presents the Annual Governance Statement for the year ended 31 March 2019 for Members' endorsement. The Annual Governance Statement is signed by both the Leader of the Council and the Chief Executive and accompanies the Statement of Accounts 2018/19.**

#### 1.1 Introduction

1.1.1 It is seen as good practice for local authorities to prepare and adopt a Local Code of Corporate Governance. The current Local Code of Corporate Governance was adopted by the Council in April 2019 and this has been used for the purposes of the Annual Governance Statement.

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

1.1.3 The Annual Governance Statement for the year ended 31 March 2019 is attached at **[Annex 1]**. The Statement has been prepared by way of a self-assessment questionnaire and supporting evidence **[Annex 2]** and is the same as that approved by this Committee in April as part of the Local Code of Corporate Governance agenda item. The Statement is signed by the most senior Member and officer of the Council.

#### 1.2 Legal Implications

1.2.1 The preparation of the Annual Governance Statement is a statutory requirement.

#### 1.3 Financial and Value for Money Considerations

1.3.1 As set out in the papers.

**1.4 Risk Assessment**

1.4.1 The preparation of the Annual Governance Statement is a statutory requirement and, therefore, failure to prepare and approve the Statement could adversely affect the Council.

**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 Annual Governance Statement for the year ended 31 March 2019.

Background papers:

Nil

contact: Neil Lawley  
Paul Worden

Julie Beilby  
Chief Executive

Sharon Shelton  
Director of Finance and Transformation  
On behalf of the Management Team

## **ANNUAL GOVERNANCE STATEMENT**

### **Purpose of this Statement**

The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation.

### **Scope of responsibility**

Tonbridge & Malling Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards covering local authority activities, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are carried out, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance which has been developed in consideration of the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the authority's Code can be obtained from the Legal team. This statement explains how the Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations which requires all relevant bodies to prepare an Annual Governance Statement.

### **The purpose of the governance framework**

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Tonbridge & Malling Borough Council for the year ended 31 March 2019 and up to the date of approval of this statement.

### **The governance framework**

The Council's Local Code of Corporate Governance sets out the arrangements in place to govern the Council's activities under seven main headings.

#### **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

Standards of conduct among Members and Officers are governed through the Council's Members' Code of Conduct and Officer Code of Conduct. Effective communication between Members and Officers is ensured through the Protocol on Member/Officer Relations documented within the Constitution. Arrangements are in place ensuring both Members and Officers declare any interests that may impact on the Council's decision making process. Such interests are recorded on a register which is maintained and monitored by the Monitoring Officer and the register of Members' Interests published on the Council's website.

The Members' Code of Conduct is based around ethical behaviour and requires objective and impartial decision making. The Code is communicated to all new Members on induction. Upholding standards of Member conduct is the responsibility of the Standards Committee. The Committee are also responsible for ensuring Members receive suitable induction and ongoing training and support.

All staff are required to read and understand the Officer Code of Conduct available through the Council's intranet and are bound by it as detailed in employee contracts. The Council has an

appraisal scheme in place for all staff that seeks to ensure staff achieve agreed levels of performance and the monitoring and management of performance is the responsibility of line managers. In addition the Council's statutory Officers are subject to Continuing Professional Development through their respective Professional Organisations.

The Council's duty to ensure that all activities undertaken are in accordance with the law is discharged in part by the Council's Constitution including its Financial Procedure Rules and Contracts Procedure Rules and supported by strategies/policies relevant to Council activities that are made available to staff and the public via the Council's intranet and internet sites respectively. Where it is appropriate strategies/policies are allocated to a lead Officer who is responsible for their periodic review and updating.

#### Ensuring openness and comprehensive stakeholder engagement

The decision-making framework of the Council is set out in the Constitution including statutory functions and the scheme of delegation of responsibilities. The Constitution is kept under review by the Monitoring Officer and Management Team with any proposed changes presented to the Council for adoption where not delegated to the Monitoring Officer. The Cabinet are responsible for taking most operational decisions. Notices of Key Decisions are published in advance via a monthly bulletin on the Council's website. All Member meetings held by the Council are open to the public, unless the items being discussed are considered to be private under the Local Government Act 1972; these will include staffing and legal matters and those of a contractual nature.

The Council's Constitution details the roles and responsibilities that are delegated to Members and Officers and specifies which decisions may be made by individuals and which are reserved for Committee, Cabinet or Council. The Constitution includes the Council's Financial and Contracts Procedure Rules setting out the Council's standing orders and financial regulations. The specific roles and responsibilities of Officers are set out through the scheme of delegation including the specific responsibilities of the Chief Executive (as Head of Paid Service), the Section 151 Officer and the Monitoring Officer ensuring effective arrangements are in place for the discharge of these functions.

The Overview and Scrutiny Committee is responsible for reviewing and scrutinising the decisions made by and performance of the Cabinet and/or Committees and Council Officers. Decisions made by Cabinet or a Cabinet Member on the recommendation of an Advisory Board can be subjected to scrutiny via a call-in procedure allowing challenge within five working days of the decision being taken.

The Council has established arrangements to communicate and consult with stakeholders on the Council's work and key policy changes and this consultation allows the development of strategic priorities and the Corporate Strategy. In addition, the Council uses its complaints procedure to understand where services can be improved.

#### Defining outcomes in terms of sustainable economic, social and environmental benefits

The Council has published a Corporate Strategy. The Strategy sets out Our Vision: To be a financially sustainable Council that delivers good value services, provides strong and clear leadership and, with our partners, addresses the needs of our Borough guided by the following core values: Taking a business-like approach; Promoting fairness; Embracing effective partnership working; and Valuing our environment and encouraging sustainable growth.

Delivering excellent quality services while providing good value for money is fundamental to the Council's vision and this is demonstrated in the focus within the Corporate Strategy on redesigning services and further improving efficiency across all services.

The Council's Medium Term Financial Strategy (MTFS) covers both revenue and capital budgets, and it is this strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Alongside the MTFS sits a Savings and Transformation Strategy. Its purpose, to provide structure, focus and direction in addressing the significant financial challenge that lies ahead.

Value for money considerations are set out in all Member reports where relevant. The social impact of decisions is considered throughout the decision making process, including the carrying out of an Equalities Impact Assessment. Where relevant, policies are subject to Strategic Environmental Impact Assessment prior to adoption.

### Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision making mechanisms are set out in detail in the Council's Constitution. Whether a decision is at Council, Cabinet or Committee level it is informed by a report encompassing advice from relevant services across the Council. Where relevant, alternative options are provided within Member reports, with an assessment of the advantages and disadvantages of those options.

The Corporate Strategy provides a reference point for the actions we take to maintain and improve the services which are most important to the local community whilst taking into account a much reduced level of funding. The delivery of the Corporate Strategy is supported by operational plans prepared by individual services, which in turn are fed down to team and individual objectives through performance management arrangements.

Performance of the Council and its partners in achieving its objectives is monitored and measured by services and their respective Service Management Teams and subsequently Members. Individual services are accountable to the Corporate Management Team for operational performance monitoring and measurement and are responsible for taking action to correct any adverse performance, in the first instance, as appropriate.

### Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council works towards improving value for money through exploration of innovative ways of working including potential for joint working and shared services; robust budgeting and financial monitoring arrangements including detailed reviews of budgets and potential savings opportunities and the work of internal and external audit.

The Council has a training programme for Members and holds regular training sessions (both on a programmed and ad hoc basis) on a variety of topics including induction training for all new Members and Committee specific training, e.g. Audit Committee.

The Council has an extensive training programme for officers including mandatory and voluntary training. Staff have access to appropriate induction training, and ongoing training (both on a programmed and ad-hoc basis) relevant to their roles. The annual appraisal process reviews staff performance and also identifies training needs.

### Managing risks and performance through robust internal control and strong public financial management

The core functions of an audit committee as defined by *CIPFA's Audit Committees: Practical Guidance for Local Authorities* is fulfilled by the Council's Audit Committee. The Council's Constitution sets out the responsibility of the Audit Committee to provide independent assurance of the adequacy of the risk management framework and associated control environment. To do so, the Audit Committee has adopted a Risk Management Strategy that sets out the roles of Members and Officers in the identification and minimisation of risk.

Risk management practices are embedded within the organisation through the annual service and strategic planning processes, which is used to develop the Council's vision and objectives. This ensures that risks to the achievement of the Council's objectives are identified and managed appropriately. Risks identified are scored on the basis of their likelihood and impact and existing controls and required actions to further mitigate risks are captured in risk registers and a risk management escalation process in place. The framework sets out the responsibility of Officers leading on areas with partnership arrangements to ensure that the partner has an adequate risk management strategy and sufficient insurance cover to protect the interests of the Council.

The Council's standard report template requires Members and Officers to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority. This assessment also covers legal, financial and value for money considerations and equality issues where relevant.

The Council has an effective Internal Audit function which operates in line with proper practices; for 2018/19 this is governed by the Public Sector Internal Audit Standards and the CIPFA application note to the Standards. The Chief Audit Executive role meets the requirements as set out in the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations. The Audit Committee are responsible for the Council's anti-fraud, bribery and corruption arrangements including whistleblowing. The Chief Audit Executive is responsible for the maintenance of the Council's Anti-Fraud, Bribery & Corruption Policy and Whistleblowing Policy and has arrangements and resources in place to investigate any allegations made under either document.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The Council's financial information and reporting arrangements are sound and the external auditor following the 2017/18 audit concluded that although the Council faces significant pressures it continues to have a robust financial planning framework.

Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Council has implemented the mandatory and (where cost effective) recommended principles set out in the Local Government Transparency Code.

All reports (save those which are exempt) for both historic and prospective meetings of the Council and its Committees and Boards are made available to the public through the Council's website. Where possible, reports are written in a public-facing and non-technical manner.

The annual Statement of Accounts reports the Council's financial performance and is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK and is subject to external audit. Included within the Accounts is an opinion given by the Council's external auditors on value for money through economic, efficient and effective use of resources.

The Review of Effectiveness of the System of Internal Audit for the year 2018/19 concluded that a good system of internal audit is in place within the Council.

**Review of effectiveness**

Tonbridge & Malling Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Audit Executive's Annual Report, and also by comments made by the external auditor and other review agencies and inspectorates.

The effectiveness of the Council's governance arrangements has been evaluated through a self-assessment against the principles of the CIPFA/SOLACE document, *Delivering Good Governance in Local Government Framework 2016*.

It should be noted that no significant governance issues were identified in the Annual Governance Review and no other areas were identified for further enhancement.

Signed

Signed

J. E. Beilby Bsc (Hons) MBA  
Chief Executive

Councillor N. J. Heslop  
Leader of the Council

Dated 29 July 2019

Dated 29 July 2019

<b>Local Code of Corporate Governance</b>	
<b>Delivering Good Governance in Local Government Framework</b>	<b>Supporting Evidence</b>
<b>1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>	
<b>1.1 Behaving with Integrity</b>	
<p>Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organization</p>	<p>The Council has Codes of Conduct for both Members and Officers. The Member Code is founded upon the seven Principles of Public Life (the Nolan Principles). This is enforced (where necessary) through the Council's Joint Standards Committee. The Officer Code is enforced (where necessary) through disciplinary procedures.</p> <p>In addition the Council has:</p> <ul style="list-style-type: none"> <li>• an Equalities Policy</li> <li>• a protocol for member/ officer relations</li> <li>• a Declaration of Interest Register for Members and for staff</li> <li>• a Register of Gifts and Hospitality offered to Members and staff</li> <li>• Financial Procedure Rules</li> <li>• Contracts Procedure Rules</li> <li>• a publicised complaints procedure</li> <li>• a fraud-aware culture, and an anti-fraud, bribery and corruption policy which is reviewed and updated annually</li> </ul>
<p>Ensuring members take the lead in establishing specific standard operating principles or values for the organization and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life</p>	<p>The Council's Constitution sets out clearly the standard operating procedures, and any delegation of responsibility from Council (and Cabinet) and the decision making powers of the Council, Cabinet and its Committees and Boards.</p>
<p>Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively</p>	<p>The Council's Constitution clearly sets out the process for holding the Executive to account through the debate of items at Committees, and a system of reporting to the Council's Overview &amp; Scrutiny Committee.</p>

<b>1.2 Demonstrating Strong Commitment to Ethical Values</b>	
Seeking to establish, monitor and maintain the organisation's ethical standards and performance	<p>The Council has a number of policies and Codes which Members and Officers are expected to adhere to:</p> <ul style="list-style-type: none"> <li>• a Code of Conduct for Members and Officers</li> <li>• an Equalities Policy</li> <li>• a Declaration of Interest Register for Members and for staff</li> <li>• a Register of Gifts and Hospitality offered to Members and staff</li> <li>• Financial Procedure Rules</li> <li>• Contracts Procedure Rules</li> <li>• an Anti-fraud, bribery and corruption policy</li> <li>• a Standards Committee to promote and maintain high standards of conduct by Members</li> </ul>
Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organization's culture and operation	<p>The Code of Conduct for Members is enforced through the Standards process. Where members of staff depart from the Officer Code of Conduct or other policies, these may be enforced through disciplinary measures.</p>
Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values	<p>The Council has robust arrangements in place to ensure that it does the right things, for the right people in a timely, inclusive, open, honest and accountable manner. These are monitored and publicised through:</p> <ul style="list-style-type: none"> <li>• The Council's performance reporting arrangements</li> <li>• Procedures for recruitment and training</li> <li>• Decision making practices</li> <li>• Data transparency arrangements, such as publication of decisions and Committee meeting minutes</li> <li>• Partnership governance arrangements</li> </ul>
Ensuring that external providers of services on behalf of the organization are required to act with integrity and in compliance with ethical standards expected by the organization	<p>The Council's Contracts Procedure Rules require standard terms to be included in all contracts, including provisions relating to bribery, equalities and fraud.</p>

<b>1.3 Respecting the Rule of Law</b>	
<p>Ensuring members of staff demonstrate a strong commitment to the rule of law as well as adhering to relevant laws and regulations</p>	<p>The Council actively recognises the requirements and responsibilities placed on it by law and will act to observe all specific legal requirements placed upon it when taking decisions. Training is provided to new members of staff appropriate to their roles, and ongoing training (in particular in relation to regulatory functions) is also provided on both an ad hoc and programmed basis.</p> <p>This is underpinned by a series of policies and processes to ensure that staff adhere to legal requirements including:</p> <ul style="list-style-type: none"> <li>• a Code of Conduct for Members and Officers</li> <li>• a Declaration of Interest Register for Members and for staff</li> <li>• a Register of Gifts and Hospitality offered to Members and staff</li> <li>• Financial Procedure Rules</li> <li>• Contracts Procedure Rules</li> <li>• an Anti-fraud, bribery and corruption policy</li> </ul>
<p>Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements</p>	<p>Training is provided to new Members upon election, and ongoing training (in particular in relation to regulatory functions) is also provided on both an ad hoc and programmed basis.</p> <p>The Council's Monitoring Officer and Deputy Monitoring Officers are responsible for ensuring that the Council acts in accordance with the law and that decisions made by the Council, however made, are made lawfully.</p>
<p>Striving to optimize the use of the full powers available for the benefit of citizens, communities and other stakeholders</p>	<p>All Services are encouraged to work closely with the Council's legal team and where necessary to consult the Monitoring Officer to ensure that the most effective use is made of the Council's powers.</p> <p>Legal staff receive regular training and updates when new powers become available to the Council.</p> <p>The Council also strives to utilise its statutory powers to work in the public interest and to the full benefit of its citizens, particularly in relation to regulatory activity.</p> <p>All Committee reports include a section to ensure any legal implications are fully analysed when making decisions.</p> <p>In addition, many Committees (in particular where the Council is carrying out regulatory functions) sit with a legal advisor.</p>

<p>Dealing with breaches of legal and regulatory provisions effectively</p>	<p>Staff in enforcement roles are appropriately trained and (where necessary) professionally qualified in the relevant field.</p> <p>The Council has individual service enforcement policies which set out how breaches are to be investigated and enforced. The Council is also due to adopt a Corporate Enforcement Policy. Investigations are carried out with the assistance of legal advice where needed. Any prospective prosecution is assessed in accordance with the Code for Crown Prosecutors and considered by a senior lawyer before a decision is made.</p> <p>Enforcement staff are encouraged to work closely with the Council's legal team to ensure that the most effective use is made of the enforcement powers available to the Council.</p> <p>In Committees where the Council is carrying out a regulatory function, the Committee usually sits with a legal advisor.</p> <p>The Council has appointed a Data Protection Officer, in accordance with GDPR, to ensure that following an internal investigation data breaches are reported to the ICO where necessary.</p>
<p>Ensuring corruption and misuse of power are dealt with effectively</p>	<p>The Council takes corruption and misuse of power very seriously. The Council has an anti- fraud, bribery and corruption policy and a whistleblowing policy in place.</p> <p>In addition, the Council has a Joint Standards Committee and Code of Conduct for Members which investigates complaints against Members.</p> <p>The Council's Monitoring Officer and Deputy Monitoring Officers are responsible for ensuring that the Council acts in accordance with the law.</p> <p>All staff are required to confirm their acceptance of all policies, including the anti-fraud, bribery and corruption and whistleblowing policies through netConsent. Such policies are ultimately enforceable through disciplinary measures. Internal audit also carry out programmed audits on matters such as corporate crime.</p>

<b>2. Ensuring Openness and Comprehensive Stakeholder Engagement</b>	
<b>2.1 Openness</b>	
<p>Ensuring an open culture through demonstrating, documenting and communicating the organization's commitment to openness</p>	<p>The Council follows both the mandatory and (where cost effective) recommended provisions of the Local Government Transparency Code for publication of information held by the Council, and has a detailed scheme of publication under the Freedom of Information Act. In addition, in relation to certain decisions made at officer level, the Council has implemented the requirements of the Openness in Local Government Regulations 2014.</p>
<p>Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided</p>	<p>The Council has established arrangements to communicate and consult with Members of the public on the Council's work and key policy changes and this consultation allows the development of strategic priorities and the Corporate Strategy.</p> <p>The Council's Constitution sets out clearly the decision- making powers of:</p> <ul style="list-style-type: none"> <li>• The Council</li> <li>• The Cabinet (including the Executive Leader and delegated decision-making to the Cabinet Portfolio Holders)</li> <li>• Other Council Committees</li> <li>• Powers delegated to officers and the limits of such delegation</li> </ul> <p>The Overview and Scrutiny Committee is responsible for reviewing and scrutinising decisions made by and performance of the Cabinet, Committees and officers. Decisions made by Cabinet, Committee or a Cabinet Member can be subjected to scrutiny via a call-in procedure allowing challenge within five working days of the decision being taken. Feedback from the Overview and Scrutiny Committee, Cabinet, Committees and Advisory Boards is taken into account and given due consideration in the decision-making process.</p> <p>Forthcoming key decisions are published in advance at regular intervals. All Member meetings held by the Council are open to the public, unless the items being discussed are considered to be private under the Local Government Act 1972; these may include staffing and legal matters and those of a contractual nature. Where such an exemption applies, it is recorded in the relevant report and minute.</p>

<p>Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.</p>	<p>Reports to Members set out all relevant considerations in order to ensure that any decision taken is rational and lawful. In addition, reports of certain officer level decisions are required to be published under the Openness in Local Government Regulations 2014.</p>
<p>Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action.</p>	<p>The Council carry out consultation where this is a legal requirement.</p>
<p><b>2.2 Engaging Comprehensively with Institutional Stakeholders</b></p>	
<p>Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are successfully achieved and sustainably.</p>	<p>The Council's Corporate Strategy 2017/19 outlines the means by which local stakeholders (including institutional stakeholders) will be engaged and how constructive, challenging relationships will be built.</p> <p>The Council has put in place Committees / Boards with cross-party representation to ensure effective and robust discussion of issues.</p> <p>The Council also has an Overview and Scrutiny Committee to scrutinise decisions made by Cabinet.</p>
<p>Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively</p>	<p>The Council has a number of partnerships, such as Shared Service and Joint Working arrangements which are intended to share resources with neighbouring authorities to improve efficiency and economic sustainability.</p>
<p>Ensuring that partnerships are built on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit</p>	<p>The Council is in the process of developing a partnership policy to guide these principles and ensure that any partnership adheres to these values.</p>

<b>2.3 Engaging with Individual Citizens and Services Users Effectively</b>	
<p>Establishing a clear policy on the type of issues that the organization will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes</p>	<p>The Council is clear that it is ultimately accountable to the citizens of Tonbridge &amp; Malling. The Council has a good understanding of who lives, works and plays in the borough and has mechanisms to listen to and respond to their needs, aspirations and concerns.</p> <p>All consultations are published on the Council's website. When considering consultation responses, the Council's decision considers the merit of the responses being made, regardless of the nature of the stakeholder group. The Council carry out consultation when legally required to do so.</p> <p>All reports and decisions include an equalities impact assessment which takes into account whether a decision would have a disproportionate impact on a certain section of society.</p>
<p>Ensuring communication methods are effective and that members and officers are clear about their roles with regard to community engagement</p>	<p>All consultations are published on the Council's website.</p> <p>The Council's Constitution sets out the roles of Members, and (in particular) Cabinet Members and their roles with regard to community engagement.</p> <p>Public-facing staff receive training relevant to their roles to ensure that their community engagement roles are clear.</p>
<p>Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.</p>	<p>The Council has taken action to develop and support effective engagement opportunities with all groups of the local community:-</p> <ul style="list-style-type: none"> <li>• The Council engages with the Parishes and unparished areas through the Parish Partnership Panel and Tonbridge Forum</li> <li>• The Council promotes the TM Youth Forum that represents the views of young people living in Tonbridge and Malling</li> </ul>

	<ul style="list-style-type: none"> <li>• The Council supports the Tonbridge &amp; Malling Seniors' Forum (TAMS) which promotes and represents the needs of the older resident</li> <li>• The Council engages with other key stakeholders through a number of partnerships that the Council has embarked upon</li> <li>• The Council actively uses complaints received to learn and improve services, whether through the internal complaints system or via the Ombudsman</li> <li>• The Council operates a petition scheme whereby matters of significant local interest can be raised for discussion at full Council</li> </ul>
Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account	<p>Consultation responses are reported upon to the relevant Committee or Board where Members have an opportunity to consider feedback received and how best to respond to such feedback.</p> <p>The Council also has in place a complaints procedure.</p>
Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity	When considering consultation responses, the Council's decision considers the merit of the responses being made, regardless of the nature of the stakeholder group.
Taking account of the impact of decisions on future generations of tax payers and service users	All reports and decisions include an equalities impact assessment which takes into account whether a decision would have a disproportionate impact on a certain section of society.
<b>3. Defining outcomes in terms of sustainable economic, social and environmental benefits</b>	
<b>3.1 Defining Outcomes</b>	
Having a clear vision, which is a clear formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy planning and other decisions	There is a clear statement of the organisation's purpose in the Tonbridge & Malling Borough Council Corporate Strategy 2017-19. This document sets out the key priorities for the authority and how the Council will work with a range of partners and the local communities towards achieving the objectives.
Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	<p>Committee reports all contain an assessment of risk of the options being presented for a decision. Additionally, the Audit Committee has a role in scrutinising corporate risk.</p> <p>Where any decision is recommended, reports contain an analysis of the intended impact or changes for stakeholders and the timescale on which that is anticipated to happen. Decisions</p>

	which may have a disproportionate impact on a certain section of society are subject to an Equalities Impact Assessment.
Delivering defined outcomes on a sustainable basis within the resources that will be available	The Council's Medium Term Financial Strategy covers both revenue and capital budgets, and it is this strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Alongside the MTFS sits a Savings and Transformation Strategy. Its purpose, to provide structure, focus and direction in addressing the significant financial challenge that lies ahead.
Identifying and managing risks to the achievement of outcomes	The Council has arrangements in place to effectively monitor and manage risks to its business through the Risk Management Strategy and Strategic and Service Risk Registers. Committee reports all contain an assessment of risk of the options being presented for a decision. Additionally, the Audit Committee has a role in scrutinising corporate risk.
Managing service users' expectations effectively with regard to determining priorities and making the best use of the available resources	The Council is accountable to the citizens of Tonbridge and Malling in delivering its duties and responsibilities. The Council manages relationships with partners and consults the public through a number of mechanisms, including regular reporting to Members, partnership arrangements (supported by partnership agreements) and the provisions of the Council's Constitution.
<b>3.2. Sustainable Economic, Social and Environmental Benefits</b>	
Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision	Value for money considerations are set out in all Committee reports. The social impact of decisions is considered throughout the decision-making process, including the carrying out of an Equalities Impact Assessment where it is considered that a recommendation may have a disproportionate impact on a particular section of society. Where relevant, policies are subject to Strategic Environmental Impact Assessment prior to adoption.
Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the	The Corporate Strategy, together with the Medium Term Financial Strategy supported by the Savings and Transformation Strategy set out the long term high level objectives of

organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	the Council.
Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	Committee reports set out all relevant considerations to enable Members to make decisions which are appropriate and lawful.
Ensuring fair access to services	The Council has an equalities policy which seeks to ensure fair access to the Council's services by all sections of society.
<b>4. Determining the interventions necessary to optimize the achievement of the intended outcomes</b>	
<b>4.1 Determining Interventions</b>	
Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks, therefore ensuring best value is achieved however services are provided.	Decision making mechanisms are set out in detail in the Council's Constitution. Whether a decision is at Council, Cabinet or Committee level it is informed by a report encompassing advice from relevant Services across the Council.  Where relevant, alternative options are presented within Committee reports, with an assessment of the benefits and disadvantages of those options.  The Council's enforcement policies will inform a decision where legal or regulatory action is an option and reports will detail the legal implications of such action.
Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources	Where appropriate, the Council carry out consultation with stakeholders, which is taken into account in the decision-making process. Consultations are published on the Council's website.
available including people, skills, land and assets and bearing in mind future impacts	In addition, the Council uses its complaints procedure to understand where services can be improved.

<b>4.2 Planning Interventions</b>	
Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	<p>Strategic and operational plans (such as the Corporate Strategy) are reviewed on a regular basis.</p> <p>Feedback from consultations is taken into account in the decision making process and reported to the relevant Committee, Cabinet or Council meeting.</p> <p>The Savings &amp; Transformation Strategy (STS) has been prepared in order to support the achievement of the Council's Medium Term Financial Strategy (MTFS) and direct resources in line with the Council's Corporate Strategy. The STS recognises that there is no one simple solution to addressing the financial challenges, and that the Council needs to embrace transformation in a multitude of ways in order to deliver savings within an agreed timetable. The STS sets out a measured structure and framework for delivering the necessary savings through a series of themes; each theme having a deliverable target.</p>
Engaging with internal and external stakeholders in determining how services and other courses of action should be delivered	The Corporate Strategy, MTFS and other key policies are set by Cabinet or the Council following input from all Service Directors and the Chief Executive.
Considering and monitoring risks facing each partner when working collaboratively, including shared risks	Reports on proposals for shared services contain a risk assessment, and risks are mitigated through the shared service agreements.
Ensuring arrangements are flexible and agile so that mechanisms for delivering goods and services can be adapted to changing circumstances	The Council's Contracts Procedure Rules and standard contract terms are reviewed regularly to ensure they are up to date with current best practice.
Establishing appropriate Key Performance Indicators as part of the planning process in order to identify how the performance of services and projects is to be measured	Performance indicators are monitored within each service and reported to Management Team where appropriate.
Ensuring capacity exists to generate the information required to review service quality regularly	It is the responsibility of Service Directors and Management Team to ensure sufficient capacity exists.
Preparing budgets in accordance with objectives, strategies and the medium-term financial plan	The Council's MTFS covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period.

	<p>Budgetary control is undertaken on a monthly basis by Services, who report known variations to Financial Services. These variations along with detailed monitoring of the Council's Salary Budget and Major Income Streams are reported to the Corporate Management Team and then onto Members via the Finance, Innovation and Property Advisory Board as part of the cycle of Council's meetings programme.</p>
<p>Informing medium and long-term resource planning by drawing up realistic estimates for revenue and capital expenditure aimed at developing a sustainable funding strategy</p>	<p>The Council's MTFS covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The Strategy sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.</p> <p>The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Underneath the Strategy sits detailed estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures. It is acknowledged that circumstances will change and for this reason the Strategy needs to, and will, be kept under regular review.</p>
<p><b>4.3 Optimising Achievement of Intended Outcomes</b></p>	
<p>Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints</p>	<p>The MTFS is aligned with the Corporate Strategy. Service priorities are aligned to the Corporate Strategy.</p>
<p>Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term</p>	<p>The budget monitoring process considers both revenue and capital budgets. Budget for the following financial year and longer term financial planning through the MTFS takes account of the impacts for service delivery through potential changes in client base, housing need and levels.</p>
	<p>The MTFS takes into account changes in Government Funding where these are known. Where these factors are unknown these are judged by officers and shared and confirmed with Members.</p>

<p>Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimizing resource usage</p>	<p>In considering the preparation of the Budget for the current and future financial years, Chief Officers are asked to identify potential growth issues and savings for future years that can be assessed and included with the MTFs. This may include changes in demand for services, including the growth in property, and proposed changes in fees and charges.</p>
<p>Ensuring the achievement of “social value” through service planning and commissioning</p>	<p>The Council has a Social Value Policy Statement. Whilst the issues of cost and quality remain of key concern, the concept of social value means that where appropriate, the Council can seek to achieve added social benefits in its procurement processes that may otherwise not have been achieved by other means.</p>
<p><b>5. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</b></p>	
<p><b>5.1 Developing the Entity’s Capacity</b></p>	
<p>Improving resource use through appropriate application of techniques such as benchmarking and other options to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently</p>	<p>The Council works towards improving value for money through:</p> <ul style="list-style-type: none"> <li>• Exploration of innovative ways of working including potential for joint-working and shared services</li> <li>• Robust budgeting and financial monitoring arrangements including detailed reviews of budgets and potential savings opportunities</li> <li>• Internal and external audit</li> <li>• Publication of annual budget and accounts information</li> </ul>
<p>Recognizing the benefits of partnerships and collaborative working where added value can be achieved</p>	<p>The Council works in partnerships with other authorities in Kent. A commitment to working in partnership is one of the Council’s stated Corporate Objectives.</p>
<p>Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources</p>	<p>The Council has an extensive training programme for council officers including mandatory and voluntary training. The Council actively engages with its staff through:</p> <ul style="list-style-type: none"> <li>• Team meetings</li> <li>• Regular performance management meetings</li> <li>• The Joint Employee Consultative Committee</li> </ul> <p>The HR Strategy incorporates the Council’s Workforce Development Plan which is reviewed and updated annually.</p>

<b>5.2. Developing the Capability of the Entity's Leadership and other Individuals</b>	
Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	The Council examines the capability of its people with governance responsibilities through appraisals, identifying any training gaps – the relevant training programmes are updated accordingly.
Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	The Council's Constitution sets out clearly the decision-making powers of the Council and its bodies and officers.
Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for the other's authority	The roles of the Leader of the Council and Chief Executive are clearly defined in the Council's Constitution.
Developing the capabilities of members and senior management to achieve effective leadership and to enable the organization to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks.	<p>The Council has undertaken steps through the "Peer Review Challenge" to review the effectiveness of the organisation.</p> <p>The Council has a training programme for Members and holds regular training sessions (both on a programmed and ad hoc basis) for Members on a variety of topics:</p> <ul style="list-style-type: none"> <li>• Induction training for all new Members</li> <li>• Service-specific training, e.g. Community Safety</li> <li>• Committee-specific training, e.g. Audit Committee</li> </ul>
Ensuring that there are structures in place to encourage public participation	Consultations are published on the Council's website. In relation to decisions taken by the Council on planning matters, and certain matters under the Licensing Act 2003, members of the public are able to make both written and oral representations to the Committee. The Council also operates a petition scheme.
Holding staff to account through regular performance reviews which take account of training or development needs	<p>Staff have access to appropriate induction training, and ongoing training on both an ad hoc and programmed basis relevant to their roles.</p> <p>The annual appraisal process reviews staff performance and also identifies training needs.</p> <p>Staff training takes place both through internal and external provision as appropriate.</p>

<p>Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing</p>	<p>The Council has a Health and Wellbeing statement of intent recognising that staff are its most valuable asset. The HR Strategy also recognises the same. The Council has a Joint Employee Consultative Committee which enables employees to raise matters of concern, including health and wellbeing.</p>
<p><b>6. Managing risks and performance through robust internal control and strong public financial management</b></p>	
<p><b>6.1. Managing Risk</b></p>	
<p>Recognizing that risk management is an integral part of all activities and must be considered in all aspects of decision making</p>	<p>Risk management practices are embedded within the organisation through the annual service and strategic planning processes, which is used to develop the Council's vision and objectives. This ensures that risks to the achievement of the Council's objectives are identified and managed appropriately. Risks identified are scored on the basis of their likelihood and impact and existing controls and required actions to further mitigate risks are captured in risk registers. The framework sets out the responsibility of Officers leading on areas with partnership arrangements to ensure that the partner has an adequate risk management strategy and sufficient insurance cover to protect the interests of the Council.</p>
<p>Implementing robust and integrated risk management arrangements and ensuring that they are working effectively</p>	<p>The Council has arrangements in place to effectively monitor and manage risks to its business through the:</p> <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Strategic Risk Register</li> <li>• Service Risk Registers</li> <li>• Audit Committee role in scrutinising corporate risk</li> <li>• Consideration of risk in all Committee reports</li> <li>• Annual Governance Statement</li> </ul> <p>The strategic and service risk registers are updated regularly.</p> <p>Risks associated with decisions are set out on relevant Committee, Cabinet or Council reports.</p> <p>The Council's standard report template requires Officers and Members to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority. This assessment also covers legal, financial and value for money considerations and equality issues where relevant.</p>

<p>Ensuring that responsibilities for managing individual risks are clearly allocated.</p>	<p>The service risk registers clearly identify responsibilities for managing individual risks.</p>
<p><b>6.2. Managing Performance</b></p>	
<p>Making decisions based on relevant, clear and objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook</p>	<p>The performance of the Council and its partners in achieving its objectives is monitored and measured by Services and their respective Service Management Teams and subsequently Management Team and Members. Individual Services are accountable to the Corporate Management Team for operational performance monitoring and measurement and are responsible for taking action to correct any adverse performance, in the first instance, as appropriate.</p>
<p>Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organization for which it is responsible (or for a committee system) encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making</p>	<p>The Overview and Scrutiny Committee is responsible for reviewing and scrutinising the decisions made by and performance of the Cabinet and/ or Committees/ Advisory Boards and Council Officers. Decisions made by Cabinet, a Committee or by a Cabinet Member acting on the recommendation of an Advisory Board can be subjected to scrutiny via a call-in procedure allowing challenge within 5 working days of the decision being taken.</p>
<p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>The Council has in place Committees &amp; Boards with cross-party representation to ensure effective and robust discussion of issues.</p> <p>Relevant Boards, Committees and the Executive are provided with information reports on a regular basis to provide progress reports on service delivery and outcomes.</p>
<p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p>	<p>The Medium Term Financial Strategy is aligned with the Corporate Strategy. Service priorities are aligned to the Corporate Strategy, which ensures consistency between budget setting and service delivery.</p> <p>Capital schemes are subject to evaluation prior to the approval for implementation; the criteria of the evaluations are set by Council.</p> <p>Following the schemes completion a post implementation review will be prepared and shared with Members in order to determine the accuracy of the initial evaluation and identify lessons to be learned and considered in future evaluations.</p>

<b>6.3 Robust Internal Control</b>	
Ensuring effective counter-fraud and anti-corruption measures are in place	The Council has an effective Internal Audit service and Anti-Fraud service in place. The Council also has an Anti-Fraud, Bribery and Corruption Policy and Whistleblowing Policy.
Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor	The Council has in place arrangements to effectively monitor and manage risks to its business through the: <ul style="list-style-type: none"> <li>• Risk Management Strategy</li> <li>• Strategic Risk Register</li> <li>• Service Risk Registers</li> </ul>
Establishing an audit committee or equivalent group/function which is independent of the executive and accountable to the governing body	The core functions of an Audit Committee as defined by CIPFA's Audit Committees: Practical Guidance for Local Authorities are fulfilled by the Council's Audit Committee. The Council's Constitution sets out the responsibility of the Audit Committee to provide independent assurance of the adequacy of the risk management framework and associated control environment. To do so, the Audit Committee has adopted a Risk Management Strategy that sets out the roles of Members and Officers in the identification and minimisation of risk.
<b>6.4 Managing Data</b>	
Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	The Council maintains a number of local policies which support and embed information processes. These include <ul style="list-style-type: none"> <li>• Data Protection Policy</li> <li>• Information Security Policy</li> <li>• Records Management Policy</li> <li>• Use of Removable Media Policy</li> <li>• Remote Access Policy</li> <li>• Social Media Policy</li> <li>• Information Asset Register</li> <li>• Information Governance Policy</li> </ul> <p>The Council has a Data Protection Officer, appointed in accordance with GDPR, with overall responsibility for ensuring the Council follows proper data protection practices. The DPO chairs the Council's Information Governance Group ("IGG") which meets regularly to discuss data protection and related matters within the Council, including data breaches.</p> <p>Individual Services have representatives appointed to sit on the IGG and feed back into their Services to raise and maintain awareness of the requirements of GDPR.</p>

<p>Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies</p>	<p>The Council is a signatory to the Kent &amp; Medway Information Sharing Agreement, which prescribes the procedures that are to be followed when sharing data with other public sector bodies in Kent. The Data Protection Officer, or his appointed Deputies, attend the Kent &amp; Medway Information Sharing Partnership, which seeks to share best practice under GDPR across all Kent authorities.</p>
<p>Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring</p>	<p>An annual risk-based Internal Audit Plan is prepared to determine the priorities of the internal audit activity, consistent with the organisation's goals. The Plan aims to ensure that sufficient audit assurance work is carried out to enable the Chief Audit Executive to deliver an opinion regarding the adequacy and effectiveness of the internal control arrangements within the Council. Each audit review will cover data quality and accuracy relevant to the subject area.</p>
<p><b>6.5 Strong Public Financial Management</b></p>	
<p>Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance</p>	<p>The Council's Financial Procedure Rules support the provision of high quality financial advice. The Council also acts in consultation with stakeholders. The Council's Internal Audit Service provides assurance on the quality of financial and performance data reported.</p> <p>The ongoing budget setting and monitoring process together with the Medium Term Financial Strategy supports the long-term achievement of outcomes and short-term financial and operational performance.</p>
<p>Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls</p>	<p>Annual budgets are set with involvement from budget holders across all council services. The MTFS is set considering longer-term risks.</p>

<b>7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</b>	
<b>7.1 Implementing Good Practice in Transparency</b>	
Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	<p>The Council has implemented the mandatory and (where cost effective) recommended principles set out in the Local Government Transparency Code. The Council has set up a steering group which meets to discuss changes to the Code and its ongoing implementation.</p> <p>Reports for both historic and prospective meetings of the Council and its Committees and Boards are made available to the public through the Council's website.</p> <p>Where possible, reports are written in a public-facing and non-technical manner. All reports (save those which are exempt) are made public and can be accessed through the Council's website.</p>
Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	Where possible, reports are written in a public-facing and non-technical manner. All reports (save those which are exempt) are made public and can be accessed through the Council's website.
<b>7.2 Implementing Good Practice in Reporting</b>	
Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way	<p>Annual Statement of Accounts report the Council's financial performance against the original estimate set for that financial year. The statement is prepared in accordance with the CIPFA Code for Local Authority Accounting.</p> <p>Included within the financial statements will be a judgement from the Council's external auditors on value for money and adequate use of resources.</p> <p>Included within the financial statements is the Annual Governance Statement, this is approved by Members and signed by the Chief Executive and Leader of the Council and provides evidence on the Council's adherence to the Local Code of Corporate Governance.</p>
Ensuring members and senior management own the results reported	The Annual Governance Statement is approved by the Leader and Chief Executive, and the financial statements are considered and approved by Management Team and the Audit Committee.

Ensuring robust arrangements for assessing the extent to which the principles contained in the framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)	Compliance is reviewed on an annual basis and reported to Audit Committee.
Ensuring that the framework is applied to jointly managed or shared service organisations as appropriate	Where appropriate, the principles will be applied to shared services.
Ensuring that performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparisons with other, similar, organisations.	Performance information is included as part of the budget setting process.
<b>7.3 Assurance and Effective Accountability</b>	
Ensuring that recommendations for corrective action made by external audit are acted upon	Responsibility for acting upon recommendations from external audit rests with the relevant Service, and is monitored through individual Service Management Teams and the Corporate Management Team.
Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon	The Council has an effective Internal Audit Service, and an Audit Committee.
Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	The Council takes an active part in Peer Reviews.
Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	Risks are picked up through the contract monitoring process and reported through Audit Committee or a relevant Advisory Board.
Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognized and met	Such arrangements are subject to public reports to each authority in the partnership. The Contracts Procedure Rules also ensure that standard contract terms are imposed ensuring proper accountability.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

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

#### Part 1- Public

#### Delegated

### **1 STATEMENT OF ACCOUNTS 2018/19 AND EXTERNAL AUDITORS REPORT ON THE OUTCOME OF THE AUDIT OF THE ACCOUNTS**

This report presents an audited set of Accounts for 2018/19 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report on the outcome of the audit of the Accounts. Members are invited to endorse and approve both the Statement of Accounts and Audit Findings Report. The external auditors 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 An audited set of Accounts for 2018/19 must be approved by the Council or a Committee of the Council by 31 July 2019. Approval of the Statement of Accounts is delegated to this Committee. The Accounts include the adjustments in light of the outturn position set out in the Revenue and Capital Outturn 2018/19 report to Cabinet on 5 June 2019.

#### **1.2 Statement of Accounts**

1.2.1 The Accounts are to be prepared in accordance with International Financial Reporting Standards. The Code of Practice on Local Authority Accounting in the United Kingdom is issued by the Chartered Institute of Public Finance and Accountancy and is reviewed and as appropriate updated at least annually. There have been no material changes to the presentation of the Accounts for 2018/19.

1.2.2 An audited set of Accounts for 2018/19 is enclosed with this agenda. It consists of the following individual financial statements and associated notes.

- 1) Comprehensive Income and Expenditure Statement – this Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be

funded from taxation. The taxation position is shown in the Movement in Reserves Statement.

- 2) Movement in Reserves Statement – this Statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (those that can be applied to fund expenditure and or reduce local taxation) and other reserves (those that the Council is not able to use to provide services, for example, the revaluation reserve).
- 3) Balance Sheet – sets out the financial position of the Council at 31 March 2019. It shows the value of the Council’s assets and liabilities, and its balances and reserves.
- 4) Cash Flow Statement – this summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes.
- 5) Notes to the financial statements.
- 6) Collection Fund and Associated Notes – shows the total local taxation transactions in relation to council tax and business rates.

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

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

1.2.5 The Statement of Accounts is subject to external audit.

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

1.3.1 The Accounts and Audit Regulations require:

- The Council’s responsible financial officer to certify an unaudited set of accounts for issue that present a “true and fair view” of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019 by no later than 31 May.
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 31 July and that following approval both the responsible financial officer and Chairman of the receiving Committee sign and date the Statement of Accounts.

- Authorities to have in place a sound system of corporate governance and that an Annual Governance Statement is to accompany, but is not part of the Accounts.

## **1.4 Annual Governance Statement**

- 1.4.1 The Annual Governance Statement can be found elsewhere on this agenda. The Statement accompanies the Statement of Accounts, but is not part of the Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation. Governing is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.
- 1.4.2 The Statement is prepared by way of a self-assessment questionnaire and supporting evidence. The Statement is to be signed by both the most senior Member and officer of the Council.

## **1.5 Audit Findings Report**

- 1.5.1 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. It is this Committee that is charged with governance for this purpose.
- 1.5.2 In accordance with this requirement, the Audit Findings Report on the outcome of the audit of the Statement of Accounts 2017/18, up to the date of the print deadline, is attached at **[Annex 3]**. 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 their representative will be at the meeting to present the report and to answer questions.
- 1.5.3 Members will note there are no material issues 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 following this meeting.
- 1.5.4 An adjusted misstatement concerned the valuation of Tonbridge Castle Gatehouse which incorrectly included VAT. An unadjusted misstatement referred to in the Report concerns the legal ruling around age discrimination for pension schemes where transitional arrangements on changing benefits have been implemented. Management's view following an estimate from the actuary is that the impact of the ruling is not material.
- 1.5.5 One recommendation was identified as a result of issues identified during the course of the audit in relation to the valuation process as detailed below together with our response.

## Issue and risk

### ① ● Valuations of PPE and Investment Properties

Management obtained valuation from their external valuer for a property that was not required as they were planning on using a fair value based on their own knowledge of the property. There was a material difference between the external valuer's valuation and the Council's valuation.

This indicates that there is a control weakness in the process for communicating between the finance department and the external valuer in setting the terms of the valuation engagement.

## Recommendations

- The Council should improve its communication between the finance department and the external valuer.

### Management response

- This issue arose between the timing of instructions to the valuer in October 2018 and circumstances pertaining at the year end. That said agree to review the timeliness and communication of instructions to the valuer going forward.

1.5.6 Two further responses required of management concern an additional disclosure in relation to financial instruments that was actioned at the time of the audit; and Brexit preparedness where the Council continues to focus on reacting to the potential of a no-deal scenario and the immediate considerations that would arise from that applicable to the delivery of services.

1.5.7 With regard to value for money it was concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.”

## 1.6 Letter of Representation

For completeness and in accordance with best practice it is recommended that the Chairman countersign the Letter of Representation **[Annex 4]** that I have prepared. With that in mind Members are asked to approve the Letter for signature by the Chairman and me when Grant Thornton 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 29 July 2019”.

## 1.7 Legal Implications

1.7.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement.

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

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

1.8.1 As set in the report and accompanying documents.

1.8.2 An increase in the audit fee of £5,200 is proposed due to additional work required to be undertaken in a number of areas.

## **1.9 Risk Assessment**

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

## **1.10 Equality Impact Assessment**

1.10.1 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.

## **1.11 Recommendations**

1.11.1 Members are **RECOMMENDED** to:

- 1) Note the Statement provided by the Director of Finance and Transformation **[Annex 2]** in support of assertions made in the Statement of Responsibilities for the Statement of Accounts.
- 2) Receive and approve the enclosed audited set of Accounts for 2018/19 and request that the Chairman sign the Accounts in the appropriate place.
- 3) Approve the Audit Findings Report on the outcome of the audit of the Statement of Accounts for 2018/19 **[Annex 3]**.
- 4) Approve the Letter of Representation **[Annex 4]** for signature by the Chairman and me when Grant Thornton issue their opinion.

Background papers:

contact: Paul Worden  
Neil Lawley

Investment information provided by King & Shaxson  
Pension information provided by Barnett Waddingham  
Valuation/Impairment information provided by BPS  
Chartered Surveyors

Sharon Shelton  
Director of Finance and Transformation

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## Overview of Statement of Accounts 2018/19

The Statement of Accounts 2018/19 consists of, amongst other things, the following financial statements and associated notes; the Comprehensive Income and Expenditure Statement; the Movement in Reserves Statement; the Balance Sheet; the Cash Flow Statement; and the Collection Fund.

1) Narrative Report (Pages 1 to 15)

The report provides, amongst other things, an overview of the Borough Council; a brief explanation of the financial aspects of the Council's activities for the year 2018/19; a review of the year; and possible issues for the future.

2) Statement of Responsibilities for the Statement of Accounts (Page 16)

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

3) Comprehensive Income and Expenditure Statement (Page 17)

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

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

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

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

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

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

The total comprehensive income and expenditure for the year is -£13.5m compared to -£6.1m for 2017/18. The movement of £7.4m is largely due to:

- Actuarial gain of £6.5m in respect of the Pension Fund. This compares to actuarial gain of £3.0m in 2017/18.
- Increase in retained National Non-Domestic Rates income of £2.0m.
- Net gain of £1.3m in the fair value of investment properties.
- Increase in grants and contributions used to fund capital expenditure of £1.3m.

4) Movement in Reserves Statement (Page 18)

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

5) Balance Sheet (Page 19)

This sets out the financial position of the Council as at 31 March 2019. The Balance Sheet is fundamental to the understanding of the Council's year-end financial position. It shows the Council's assets and liabilities, and its balances and reserves.

As at 31 March 2019 the total value of the Council's non-current assets was £87.9m (£84.1m at 31 March 2018). Movements in non-current assets reflect the Council's capital programme and revaluation, depreciation, impairment and disposal of assets.

In accordance with the rolling programme properties for community use were the subject of revaluation. In addition to properties for community use, leisure premises, car parks where material and council offices were also the subject of revaluation. The resulting revaluation was a net gain of £5.22m, of which £3.89m is recognised in the revaluation reserve and a net £1.33m is recognised in cost of services in the (surplus) / deficit on provision of services in the Comprehensive Income and Expenditure Statement.

The downward movement in the gross value of debtors of £0.5m is primarily due to a reduction in Housing Benefit subsidy owed by the Department for Work and Pensions offset by an increase in payments owed under the Business Rates Retention Scheme.

The upward movement in creditors of £2.6m is largely due to sums owed under the Business Rates Retention Scheme and also sums moving from Central Government to Local Authorities as a result of the Kent wide 100% Business Rates Retention pilot.

The upward movement in provisions of £0.2m is due to the increase in the provision to meet our share of the cost arising from successful appeals by business ratepayers.

The Pensions Liability as at 31 March 2019 was £56.7m and as at 31 March 2018 £61.8m. The change in the pension fund deficit over the year is mainly dependent on asset returns, corporate bond yields and market expectations of inflation which when taken together has resulted in a decrease in the pension fund deficit compared to the previous year.

The Council's Reserves stand at £21.5m at 31 March 2019 comprising:

Revenue Reserve for Capital Schemes	£7.8m
Building Repairs Reserve	£0.7m
Property Investment Fund Reserve	£1.8m
Other Specific Earmarked Reserves	£4.5m
General Revenue Reserve	£6.7m

6) Cash Flow Statement (Page 20)

This summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes. The statement shows that there was a net cash outflow of £2.1m largely as a result of increased investment balances arising from the Business Rates Retention scheme placed in short term deposits offset by a net cash inflow on operating activities in part due to receipt of government grant owed for prior years.

7) Notes to the Accounts (Pages 21 to 66)

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

8) Collection Fund and Associated Notes (Pages 67 to 70)

This reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, showing the transactions in relation to council tax

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

9) Annual Governance Statement (Pages 71 to 74)

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

10) Independent Auditor's Report (Pages 75 to 76)

The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019, and review the Annual Governance Statement.

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

This statement is given in respect of the Statement of Accounts 2018/19.

I acknowledge my responsibility for preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and that the Accounts present a “true and fair view” of the financial position of the Council and of its income and expenditure for the year ended 31 March 2019.

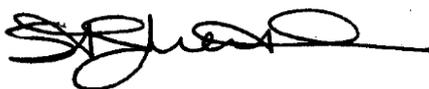
In doing so, the following have been done:

- A detailed closedown timetable (final accounts working paper 27) was prepared and approved by the Corporate Management Team, and communicated to all Services.
- Detailed Year-End Service Guidance Notes (final accounts working paper 29) were prepared and issued to all Services.
- Recommendations made by our external auditors following the audit of the 2017/18 Statement of Accounts have been reviewed and actioned where appropriate.
- Reconciliations have been carried out between the Council’s financial ledger (Integra) and the Revenues & Benefits system (iWorld).
- The trial balance (final accounts working paper 25) has been balanced.
- The total for each accountant as per the trial balance (final accounts working paper 25) has been agreed to the net total as per the ledger control sheets.
- The Total Service Expenditure as per the General Fund (final accounts working paper 13) has been agreed to the movement in the General Fund on the Integra General Ledger (final accounts working paper 14).
- The non-current assets entries in the Balance Sheet are in line with valuations and other known transactions.
- The entries within the Collection Fund have been agreed with other financial statements in the Statement of Accounts and the Council Tax set by the Council on 20 February 2018 and other major precepting authorities.
- The total expenditure chargeable to the general fund and reserve balances shown in the Expenditure and Funding Analysis (final accounts

working paper 12) agrees to the net increase/decrease in general fund and reserve balances shown in the Movement in Reserves Statement (final accounts working paper 10).

- The total comprehensive income and expenditure for the year as shown in the Comprehensive Income and Expenditure Statement (final accounts working paper 8) has been agreed to the Total Reserves movement reflected in the Balance Sheet (final accounts working paper 2).
- The movement in cash and cash equivalents as per the Cash Flow Statement has been agreed with the movement in the cash and cash equivalents balances as per the Balance Sheet (final accounts working paper 2).
- An Analytical Review with explanatory notes of significant variations between 2017/18 and 2018/19 will be prepared prior to the commencement of the audit of the accounts.

Signed:



Dated: 21 May 2019

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

# The Audit Findings for Tonbridge and Malling Borough Council

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Year ended 31 March 2019  
29 July 2019



# Contents



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## Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

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- 4
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## Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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 for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Tonbridge and Malling Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 89</p>	<p><b>Financial Statements</b></p> <p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 13. We have identified one adjustment to the financial statements that have resulted in no impact to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>- receipt of an updated valuation of an investment property;</li> <li>- receipt of a letter from the auditors of the Kent County Council Pension Fund;</li> <li>- final senior management quality reviews of work;</li> <li>- receipt of management representation letter; and</li> <li>- review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
	<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>
<p><b>Acknowledgements</b></p> <p>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.</p>		

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 21 January 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 29 July 2019, as detailed in (Appendix E). These outstanding items are listed on page 3.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Tonbridge and Malling Borough Council.

	Council Amount (£)
Materiality for the financial statements	1,218,000
Performance materiality	914,000
Trivial matters	61,000

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

### Auditor commentary

During our audit risk assessment ahead of issuing the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- 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 and Malling, mean that all forms of fraud are seen as unacceptable

Therefore we did not consider this to be a significant risk for Tonbridge and Malling Borough Council.

Through our ongoing risk assessment and performance of audit work, we have made no changes to the our assessment reported in the Audit Plan.

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2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analyse the journals listing and determine the criteria for selecting high risk unusual journals;
- test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

3

### Valuation of land and buildings

The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£66.3m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

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### Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- write to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding using information provided by Gerald Eve as an auditor's expert;
- tested revaluations made during the year to see if they had been input correctly into the authority's asset register;
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end; and
- considered the implications of Brexit on the valuation of the Council's asset portfolio

Our audit work has identified control weaknesses relating to the valuation process in respect of valuation of Land and Buildings and Investment Properties (see Appendix A). Additionally, an issue relating to the inclusion of VAT on the valuation of Heritage Assets has led to a material adjustment (see Appendix C).

4

### Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.8 million in the Authority's balance sheet at 31st March 2018) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtain assurances from the auditor of Kent Superannuation Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

# Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p data-bbox="66 461 99 489">1</p> <p data-bbox="99 654 132 815" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 93</p> <p data-bbox="136 454 634 472"><b>Potential impact of the McCloud judgement</b></p> <p data-bbox="136 494 706 601">The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p data-bbox="136 622 706 729">The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p data-bbox="136 751 706 882">The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p data-bbox="727 494 1317 572">Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p data-bbox="727 594 1317 729">The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £774k, and an increase in service costs for the 2019/20 year of £55k.</p> <p data-bbox="727 751 1317 822">Management's view is that the impact of the ruling is not material for Tonbridge and Malling Council, and will be considered for future years' actuarial valuations.</p>	<p data-bbox="1369 494 2005 572">We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p data-bbox="1369 594 2005 758">Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p data-bbox="1369 779 2005 793">We have included this as an uncertainty within Appendix C.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings</b> – NBV £67,982k	<b>Land and Buildings</b> Land and Buildings comprises £67,982k of assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged BPS to complete the valuation of properties as at 1 January 2019 on a five yearly cyclical basis. 82.3% of Land and Building assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £3,017k. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 January 2019, through the application of indices and comparison to valued assets to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Land and Buildings was £68,559k.	We assessed management's estimate for the value of Land and Buildings, Heritage Assets and Investment Property by considering: <ul style="list-style-type: none"> <li>• An assessment of management's expert</li> <li>• The completeness and accuracy of the underlying information used to determine the estimate</li> <li>• The impact of any changes to valuation method</li> <li>• The consistency of estimate against near neighbours/GE report</li> <li>• The reasonableness of increase in estimate</li> <li>• The reasonableness of management's assertion that assets not revalued are fairly stated</li> <li>• The adequacy of disclosure of estimate in the financial statements</li> </ul> We identified control weaknesses in relation to the valuation process (see Appendix A). However, overall we consider management's process is appropriate.	
<b>Heritage Assets -</b> £7,961k	<b>Heritage Assets</b> Heritage Assets comprises £7,961k, £7,793k of which is the Tonbridge Castle Gatehouse. Valuations of Heritage Assets may be made by any method that is appropriate and relevant. The Tonbridge Castle Gatehouse was revalued as at 31 March 2019 for insurance purposes. The draft accounts included it at £9,350k. However, audit work identified that this incorrectly included VAT, so a material adjustment of £1,557k was required.		
<b>Investment Properties -</b> £6,490k	<b>Investment Properties</b> Investment Properties comprises £6,210k of commercial and industrial properties and non-operational land. All the investment property portfolio was revalued and there was a £1,480k increase in value of some land due to outline planning permission for new dwellings having been obtained on it. The total year end valuation of Investment Properties was £6,210k.		

- Assessment**
- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
  - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
  - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
  - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £56.7m</b></p>	<p>The Council's net pension liability at 31 March 2019 is £56.7m (PY £61.8m) comprising the Kent County Council Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.5m actuarial gain recognised in the comprehensive income and expenditure statement during 2018/19.</p>	<p>We assessed management's estimate for the net pension liability, considering;</p> <ul style="list-style-type: none"> <li>An assessment of management's expert</li> <li>An assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach</li> <li>The use of PwC as auditor's expert to assess actuary and assumptions made by actuary</li> </ul> <table border="1" data-bbox="797 449 1792 849"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35% - 2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.45%</td> <td>2.40% - 2.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.95%</td> <td>3.10% - 4.35% scheme-specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>45: 23.7 60: 22.0</td> <td>22.2 – 25.0 20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>45: 25.8 60: 24.0</td> <td>25.0 – 26.6 23.3 – 24.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>The completeness and accuracy of the underlying information used to determine the estimate</li> <li>The impact of any changes to valuation method</li> <li>The reasonableness of the Council's share of LPS pension assets.</li> <li>The reasonableness of increase in estimate</li> <li>The adequacy of disclosure of estimate in the financial statements</li> <li>The materiality of the impact of the McCloud judgement on the council's liabilities</li> </ul> <p>We consider management's process is appropriate.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.40%	2.35% - 2.45%	●	Pension increase rate	2.45%	2.40% - 2.45%	●	Salary growth	3.95%	3.10% - 4.35% scheme-specific	●	Life expectancy – Males currently aged 45 / 65	45: 23.7 60: 22.0	22.2 – 25.0 20.6 – 23.4	●	Life expectancy – Females currently aged 45 / 65	45: 25.8 60: 24.0	25.0 – 26.6 23.3 – 24.8	●	<p>●</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.40%	2.35% - 2.45%	●																								
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Salary growth	3.95%	3.10% - 4.35% scheme-specific	●																								
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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals - £3,183k</b>	The Council are responsible for repaying a proportion of successful rateable value appeals. Management uses an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. TMBC's share of the provision has increased by £239k in 2018/19 from £2,942k.	<p>We assessed management's provision for NNDR appeals by considering:</p> <ul style="list-style-type: none"> <li>the appropriateness of the underlying information used to determine the estimate</li> <li>the impact of any changes to valuation method</li> <li>the consistency of estimate against peers</li> <li>the reasonableness of increase/decrease in estimate</li> <li>the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>We consider management's process is appropriate.</p>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Going concern

## Our responsibility

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

## Going concern commentary

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### Management's assessment process

Management's going concern assessment is implicit in the forward planning documents such as the Budget 19/20 and Medium Term Financial Strategy. The Council has healthy reserves of £21.5m and £1.25m of General Fund reserves. Whilst local government funding continues to reduce over time, the Council is well placed financially to deliver services for local residents in the longer term

### Auditor commentary

- We agree with management's assessment that the Council is a going concern.

## Work performed

### Auditor commentary

In common with other public sector bodies, even if a local authority were unable to continue as a business, we would normally expect the accounts to be prepared on a going concern basis. This is because there is a public sector interpretation of IAS 1 that means, unless the services provided by a public sector body are likely to be transferred outside the public sector, the financial statements should be prepared on a going concern basis.

A review of the draft financial statements have not identified the existence of going concern events or conditions which cast significant doubt on TMBC's ability to continue as a going concern. There is a significant volume of evidence available to support the conclusion of officers that it is appropriate that the accounts are produced on a going concern basis such as the detailed information on the Council's Budget for 2019/20, the MTFS and the STS

## Concluding comments

### Auditor commentary

- We are not proposing any qualification to the audit opinion with regards to management's going concern assessment or disclosure.

# 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	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Audit Committee papers.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to banks and investment fund managers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found additional disclosures relating to the new requirements for Financial Instruments of IFRS 9 were required. See Appendix C.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>The draft accounts and supporting working papers were provided to us for audit on 21 May 2019, 10 days before the statutory deadline. This allowed us to pick samples before coming on site. All information and explanations requested from management were provided in good time enabling us to complete our work ahead of schedule.</li> </ul>

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# Other responsibilities under the Code

Issue	Commentary
<b>1 Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
<b>2 Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>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 other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
<b>3 Specified procedures for Whole of Government Accounts</b>	<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"> <li>Note that work is not required as the Council does not exceed the threshold.</li> </ul>
<b>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Tonbridge and Malling Borough Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

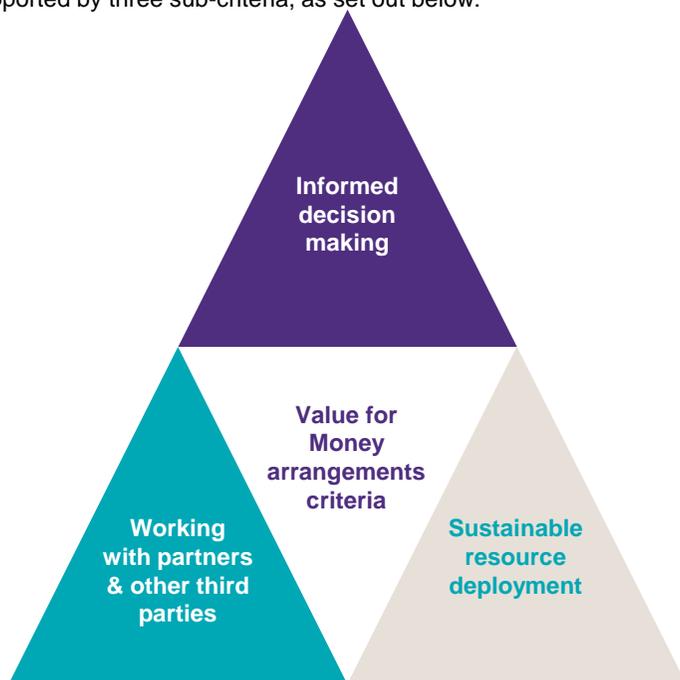
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."*

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



## Risk assessment

We carried out an initial risk assessment in December 2018 and January 2019 and identified a 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 dated 21 May 2019.

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. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Our work

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. In arriving at our conclusion, our main considerations were:

- Understanding the Council's arrangements for planning for the potential of a no-deal scenario on 29<sup>th</sup> March 2019, and the immediate considerations that would rise from the delivery of Tonbridge and Malling Borough Council's services.

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 on pages 15 to 16.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## 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	Findings	Conclusion
<p><b>Brexit</b></p> <p>With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on you, which you will need to plan for.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.</li> </ul>	<p><b>General planning and impact on traffic</b></p> <p>The council's Brexit preparedness planning has been focused on reacting to this potential no-deal scenario and the immediate considerations that would rise from that applicable to the delivery of Tonbridge and Malling's service. Central Government has warned that a no-deal scenario could lead to 6 months of disruption. Working together with emergency services, County, the NHS and other local authorities through the Kent Resilience Forum (KRF), the council has produced a work plan to address the most significant impacts. Tonbridge and Malling Borough Council has identified the main concern arising from a no-deal Brexit would be the impact of likely major traffic congestion on Kent motorways and major roads resulting from delays at Kent ports. The 'Freight Traffic Management Plan' plan to utilize Operation Fennel, which uses a phased approach to manage the flow of freight and other traffic through Kent's motorways and A-roads. However, experience from Operation Stack in 2015 suggests that even with plans such as these in place, there can still be significant disruption of major and local roads throughout the county. Congestion such as this could impact the council's ability to deliver key services as staff may be unable to get to their places of work and the waste collection services along with their access to Kent County waste transfer stations could be disrupted by traffic jams. We agree that this is the largest and most likely impact on TMBC from a no-deal Brexit scenario.</p> <p>In order to mitigate this risk, the council have taken several actions that are tracked in a Brexit work plan. The actions include starting to procure 100 laptops along with peripherals and software licenses in January 2019, to enable staff to work remotely; liaising with members of the KRF; recruiting additional resilience and emergency planning resource; mapped staff home locations to plan how to get them to work. These are proportional responses to the implications on Tonbridge and Malling of a no-deal Brexit scenario that will help maintain key council services to be delivered in the case of a no-deal Brexit. Additionally, key staff have been sent on operational, tactical and strategic command and control training; and a communication strategy was produced for keeping the public informed of the impact on services.</p> <p>To reclaim the costs of their Brexit preparations, in January, the council applied for £105,000 of funding from the Brexit Contingency Fund that was to be managed by Kent County Council. This funding was to be for the laptops and licenses, additional IT staffing resources to deliver the roll out of the new laptops and emergency planning and resilience staff, and to support the council providing mutual aid to Kent County Council and other Kent districts. However, as a result of a decision from the Ministry of Housing, Communities and Local Government, instead of locally managed contingency funds, each district council in the country was given £35,000 over two years to support Brexit preparedness. Costs for new IT hardware and additional staff in excess of this £35,000 have had to be absorbed by the council. The council already had plans to purchase laptops as part of its digital agenda to enable remote working and resilience. The expenditure on these laptops was brought forwards and focused providing key officers with laptops to enable the council to continue to provide key services in the event of a potential no-deal Brexit causing traffic problems.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>On this basis we concluded that the risk identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council continues to focus on reacting to the potential of a no-deal scenario and the immediate considerations that would arise from that applicable to the delivery of services.</li> </ul>

**Key findings (continued)**

1

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Significant risk	Findings	Conclusion
Brexit (Continued)	<p><b>Finance</b></p> <p>A financial risk relating to 'Brexit Impact and Economic Stability' has been on the Council's Strategic Risk Register since April 2017 which indicates it has formed part of the council's thinking for a long period. This was upgraded from an amber risk to red in January 2019 to reflect the increased risk of a no-deal Brexit and the potential impact on business continuity this could have.</p> <p>Treasury management planning has taken Brexit into consideration in the Annual Investment Strategy. It has introduced some flexibility on the risk parameters for credit ratings of UK sovereign bonds and UK nationalized or part-nationalised banks in case these are downgraded following a disorderly Brexit.</p> <p>The plans detailed above are all rather short-term plans for a no-deal Brexit. There has not been much planning for the medium- and long-term impact of a variety of Brexit outcomes. This is to be expected as, even into early 2019, the outcome of Brexit negotiations are uncertain so planning assumptions are fluid. As acknowledged in the Strategic Risk Register , we would expect to see reference to any medium- to long-term financial impacts of whichever Brexit scenario occurs / has occurred in the Medium Term Financial Strategy when it is next refreshed.</p> <p><b>Governance</b></p> <p>The council's report on Brexit preparedness was prepared on behalf of the Chief Executive and was considered by members in the Overview and Scrutiny Committee January and Cabinet for decision in February . The overseeing of Brexit planning is carried out by Mark Raymond, the council's Chief Corporate Policy Officer and progress against the Brexit work plan is reported to the Executive Management Team each month. These arrangements are sufficient to keep members and senior officers abreast of Brexit planning.</p> <p><b>Change in the Brexit deadline</b></p> <p>Following an agreement between the UK central government and the European Union, to move the Brexit deadline back from 29<sup>th</sup> March 2019 to 31 October 2019, since year end, we have continued to consider how the Council is approaching and managing the risks associated with this risk, especially with the prospect of a no deal departure looming larger. However, as our VFM conclusion relates to the same period as the statement of accounts, evidence of actions taken by the Council since the year end in respect to planning for Brexit has not been referred to above.</p>	

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit services were identified. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits claim	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2017/18 was £18,084 in comparison to the total fee for the audit of £35,348 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<p>1</p> <p>●</p>	<p><b>Valuations of PPE and Investment Properties</b></p> <p>Management obtained valuation from their external valuer for a property that was not required as they were planning on using a fair value based on their own knowledge of the property. There was a material difference between the external valuer's valuation and the Council's valuation.</p> <p>This indicates that there is a control weakness in the process for communicating between the finance department and the external valuer in setting the terms of the valuation engagement.</p>	<ul style="list-style-type: none"> <li>The Council should improve its communication between the finance department and the external valuer.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>This issue arose between the timing of instructions to the valuer in October 2018 and circumstances pertaining at the year end. That said agree to review the timeliness and communication of instructions to the valuer going forward.</li> </ul>

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## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Tonbridge and Malling Borough Council's 2017/18 financial statements, which resulted in 1 recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1</p> <p>✓</p> <p>Page 105</p>	<ul style="list-style-type: none"> <li>Although the Council's accounting policies provide information on revenue recognition in respect of Council Tax and National Non-Domestic Rates, they would be improved by a more explicit policy in respect of General Fund Revenue.</li> </ul> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>Expand the current disclosure at Accounting Policies to clarify the basis on which revenue is recognised in the financial statements.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We will undertake a review of this policy for the 2018/19 Statement</li> </ul>	<ul style="list-style-type: none"> <li>Management reviewed the accounting policy for Council Tax and National Non-Domestic Rates revenue as part of their update of accounting policies in preparation for the implementation of IFRS Revenue from Contracts with Customers. They sought comment from the auditors prior to the accounting policies' approval by Audit Committee.</li> </ul>	

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
1 <b>Heritage Assets</b> The valuation of the Tonbridge Castle Gatehouse as part of Heritage Assets erroneously included VAT.	-	1,557	nil
<b>Overall impact</b>	<b>nil</b>	<b>1,557</b>	<b>nil</b>

## Misclassification 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Financial Instruments</b>	<p>Additional disclosure was required relating to:</p> <ul style="list-style-type: none"> <li>Contractual nature of debtors that meet the definition of financial instruments; and</li> <li>The statutory override to account for any changes in the fair value of the pooled property investments that Any gains or losses credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement are reversed out through the Movement in Reserves</li> </ul>	<ul style="list-style-type: none"> <li>Additional disclosures should be added.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>Actioned at the time of the audit.</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
<p>1 <b>Potential impact of the McCloud judgement</b></p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.</p> <p>Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £774k, and an increase in service costs for the 2019/20 year of £55k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties both relating to the outcome of the appeal process at this point in time, and relating to the estimation of the impact on the Council's liability.</p>	<p>The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</p>

## Impact of prior year unadjusted misstatements

We have not identified any adjustments identified during the prior year audit which had not been made within the final set of 2017/18 financial statements

# Fees

We confirm below our final fees charged for the audit and audit related services. There were no fees for the provision of non audit services.

## Audit Fees

	Proposed fee (£)	Final fee (£)	2017/18 fee (£)
Council Audit	35,348	40,548	45,776
<b>Total audit fees (excluding VAT)</b>	<b>35,348</b>	<b>40,548</b>	<b>45,776</b>

The change in final fee is due to additional work that performed in connection with the 2018-19 statutory audits of the Council. The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and property, plant and equipment needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of these areas this year to reflect this. Additionally, there was a sector-wide issue relating to the impact of the McCloud judgement on the pension net liability. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements. Finally, we identified issues relating to the valuation of heritage assets and investment property that led to further work being required. We have increased the volume and scope of our audit work to reflect this.

Additional fees are subject to PSSA Ltd approval.

## Non Audit Fees

Fees for other services	Fees (£)
<b>Audit related services:</b>	
• Grant Certification	TBC
	<b>TBC</b>

# 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

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Tonbridge and Malling Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you [where](#):

- the Director of Finance and Transformation's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Transformation has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Director of Finance and Transformation is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based

on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

#### Responsibilities of the Authority, the Director of Finance and Transformation and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Transformation. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Transformation determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Transformation is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

# Audit opinion

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements ~~as a whole, are~~ free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken ~~on the basis of~~ these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Tonbridge and Malling Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

[Signature]

Paul Dossett, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]



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Grant Thornton UK LLP  
110 Bishopsgate  
London  
EC2N 4AY

**Contact**  
**Email**  
Your ref.  
Our ref  
Date

**Mrs S Shelton**  
**[Sharon.shelton@tmbc.gov.uk](mailto:Sharon.shelton@tmbc.gov.uk)**  
F/200/  
29 July 2019

Dear Sirs

**Tonbridge & Malling Borough Council**  
**Financial Statements for the year ended 31 March 2019**

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 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented 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 any 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.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material

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

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do-it-online?](http://www.tmbc.gov.uk/do-it-online?)

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.

- vi 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.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and 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.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv 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**

- xv We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council 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.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii 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.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
- 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.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi 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.
- xxii 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.
- xxiii 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**

- xxiv 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.

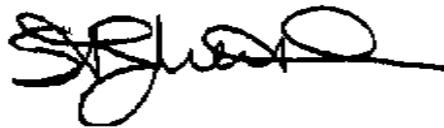
### **Narrative Report**

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

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 29 July 2019.

Yours faithfully



Name: Councillor Vivian Branson  
Position: Chair of the Audit Committee  
Date: 29 July 2019

Name: Sharon Shelton  
Position: Director of Finance and Transformation  
Date: 29 July 2019

**Signed on behalf of the Governing Body**

### Unadjusted misstatements

<u>Detail</u>	<u>Reason for not adjusting</u>
<p><b>1 Potential impact of the McCloud judgement</b></p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented. Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £774k, and an increase in service costs for the 2019/20 year of £55k.</p> <p>We have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties both relating to the outcome of the appeal process at this point in time, and relating to the estimation of the impact on the Council's liability.</p>	<p>The figures provided by the actuary are an estimate, and not a formal actuarial valuation. Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we are satisfied that the differences are not likely to be material. This issue will be considered as part of the next actuarial valuation exercise in 2019/20.</p>

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

#### Report of the Chief Audit Executive

#### Part 1- Public

#### Delegated

### 1 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

**This report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function for the year 2018/19.**

#### 1.1 Introduction

- 1.1.1 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that periodic self-assessments are conducted to evaluate conformance with the PSIAS Code of Ethics and Standards. To ensure compliance with this element of PSIAS an annual internal review of the effectiveness of the Internal Audit function is undertaken. The Chief Audit Executive has conducted the review of effectiveness for the year 2018/19 and a summary of the findings of this review is attached at **[Annex 1]**.
- 1.1.2 It is important to note that the review is about effectiveness, not process. As well as conformance with professional standards the focus of the review should be on the delivery of internal audit to the standard required by the Council in order for the Council to be able to place reliance on its work.
- 1.1.3 The findings of the review of effectiveness are reported to Management Team. Management Team, following consideration of the outcome of the review, then agree an opinion as to whether the review demonstrates that the Internal Audit function in place for the year 2018/19 was effective, using the opinion definitions set out below.

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

1.1.4 It was concluded by Management Team that the opinion on the effectiveness of the Internal Audit function in place for the year 2018/19 was Satisfactory.

## 1.2 Legal Implications

1.2.1 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.

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

## 1.3 Financial and Value for Money Considerations

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

## **1.4 Risk Assessment**

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

## **1.5 Equality Impact Assessment**

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

## **1.6 Recommendations**

- 1.6.1 Members are asked to consider the findings of the review and endorse the opinion that the effectiveness of the Internal Audit function for the year 2018/19 was Satisfactory.

Background papers:

contact: Samantha Buckland

Nil

Samantha Buckland  
Chief Audit Executive

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**Summary of Measures to demonstrate the effectiveness of Internal Audit – 2018-19 Review**

<b>Measure</b>	<b>Finding</b>
<p>Review of the Internal Audit team against proper practice, as defined as the <i>Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards</i>.</p>	<p>The Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards were introduced as proper Practice from 1 April 2013 (amended April 2017).</p> <p>The PSIAS require a periodic Internal Assessment and a five-yearly independent External Assessment; this last was undertaken in the 2016/17 financial year and confirmed that the team were considered to be working in conformance with the PSIAS overall. An action plan was put in place to address the areas for development and all relevant actions were completed by end of the 2017/18 year.</p> <p>The annual internal assessment was undertaken in June 2019; the self-assessment established that we continue to generally conform to the Code of Ethics and Standards that constitute the PSIAS. An area of development remains in relation to changes made to the Standards in April 2017 and was therefore assessed as Partially Conforms:</p> <p>Performance Standard 2050 – Coordination and Reliance</p> <p>This Standard was enhanced from purely coordinating to emphasis on the requirement to have a consistent process for relying on the work of other assurance providers. Although we rarely rely on the work of others an exercise is required to map potential assurance providers and update the Audit Manual to include a criteria for reliance.</p>
<p>The internal audit planning process, demonstrating that audit planning is risk-based and reflects the business objectives of the Council.</p>	<p>The annual audit planning exercise for the 2018/19 financial year used a risk-based methodology to ensure the most effective use of Internal Audit resource. Review of the 2018/19 Plan established that there was a good level of alignment to the key risks.</p>
<p>Customer Satisfaction survey results.</p>	<p>Customer satisfaction surveys are sent to client managers on publication of a final internal audit report. The results of surveys returned for 2018-19 to date gave an overall satisfaction measure of 92% against a target of 80% (based on 9 surveys received at time of reporting). It is noted that while this is a good result it</p>

Summary of Measures to demonstrate the effectiveness of Internal Audit – 2018-19 Review

Measure	Finding
	is a lower score than previous years, for example in 2017/18 where satisfaction was 100%. Surveys are being reviewed to identify any key themes and actions to address issues identified will be undertaken during 2019/20.
Key performance indicator outturns.	<p>A set of six performance measures was used to assess the effectiveness of the Internal Audit team in achieving a quality Internal Audit Service for 2018-19. As reported in the Annual Internal Audit and Counter Fraud Report 2018-19, during the year the team met five of the six performance measures. For the remaining one:</p> <p>We had not achieved the target of 95% completion of the annual plan at the time of reporting, this currently stands at 91.3% due to delays in completion of work following the resignation of a full-time member of staff and a three-month gap in resources.</p>
The extent to which reliance can be placed on the work of internal audit by the external auditor.	<p>In their March 2019 Progress Report Grant Thornton reported as follows:</p> <p><i>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</i></p>

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

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

#### Part 1- Public

#### Delegated

### 1 ROLE OF THE AUDIT COMMITTEE AND TRAINING NEEDS

The report outlines the role of the Audit Committee as set out in the Constitution and more specifically its Terms of Reference and proposed training / briefings to assist Members fulfil the responsibilities placed on the Committee.

#### 1.1 Role of the Committee

1.1.1 With a new Committee in place following the local elections and Annual Council, it is worth reminding Members of the responsibilities of the Audit Committee as set out in the Constitution.

1.1.2 An extract from the Constitution is attached at **[Annex 1]**. The Terms of Reference state that:

*The Committee shall provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place. It shall also provide independent assurance on the effectiveness of the control environment, including arrangements for value for money and countering fraud.*

1.1.3 In addition to the things specifically mentioned above, the Committee also has responsibility for the review and approval of the annual accounts and the review of the Treasury Management and Annual Investment Strategy prior to approval by Full Council.

#### 1.2 Training

1.2.1 In order to ensure Members are properly equipped to undertake their role on the Committee, it will be important to offer a series of training/briefing events.

- 1.2.2 The Chair and Vice-Chair of the Committee recently attended a PSAA Local Audit Quality Forum Event, and they may as a result have their own ideas about what training or briefings the Committee might need looking to the year ahead.
- 1.2.3 The first thing identified that Audit Committee Members would need to be briefed / trained on is local government accounts given that this is the 'opening act' for the new Committee! Accordingly, a training session on Monday 22 July was arranged to take Members through this important process.
- 1.2.4 It is intended that a training session on Risk Management is programmed and current thinking is for this to be on the evening of the October Committee meeting which will be open to all Members of the Council, but of specific interest to Audit Committee Members. A speaker from our Insurers will be invited to lead this training event.
- 1.2.5 At each meeting, Members will receive monitoring information regarding the Council's Treasury Management activity; and in January each year, the Committee will be invited to review the Treasury Management and Annual Investment Strategy for recommendation to Cabinet and Full Council. In advance of this important task, it is suggested that a specific training session on Treasury Management is arranged. There is also the opportunity to provide a brief overview of one or more subject areas when introducing a particular report as we move through the year, e.g. the role of internal audit.
- 1.2.6 Members may have other training requests that may assist them in fulfilling their roles on the Committee, and I will be happy to take forward such requests.

### **1.3 Legal Implications**

- 1.3.1 Under the Council's Constitution, Members of the Audit Committee have important roles to play in ensuring effective assurance arrangements.

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

- 1.4.1 Training costs will be met from existing budgets.

### **1.5 Risk Assessment**

- 1.5.1 None.

### **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 **RECOMMENDED** to:

- 1) Note the Terms of Reference of the Committee.
- 2) Note the proposed training programme as set out in the report.
- 3) Identify any further training needs.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton  
Director of Finance and Transformation

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## Extract from TMBC Constitution – Responsibilities of the Audit Committee

<b>2.</b>	<b>Audit Committee</b>
Size and Membership:	
To consist of seven members and it shall be politically balanced, none of whom may be a member of the Executive.  (Quorum: 3 Members of the Committee)	
Terms of Reference:	
The Committee shall provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place. It shall also provide independent assurance on the effectiveness of the control environment, including arrangements for value for money and countering fraud.  The functions of the committee shall include:	
1.	To consider the Chief Audit Executive annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2.	To consider summaries of specific internal audit reports as requested.
3.	To consider reports dealing with the management and performance of the providers of internal audit services.
4.	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5.	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6.	To consider initially general and specific audit reports from the successors to the Audit Commission, the External Auditor and the Director of Finance and Transformation, to make recommendations to Council for future action and to monitor the Council's implementation of those recommendations.
7.	To consider specific reports as agreed with the external auditor
8.	To comment on the scope and depth of external audit work and to ensure it gives value for money
9.	To oversee the appointment of the Council's external auditor.

## Extract from TMBC Constitution – Responsibilities of the Audit Committee

10.	To commission work from internal and external audit.
11.	To monitor the effective development and operation of risk management and corporate governance in the council.
12.	To monitor council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the council's complaints procedure.
13.	To oversee the production of the authority's statement on internal control and to recommend its adoption.
14.	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
15.	Effectiveness of the control environment including arrangements for value for money and countering fraud.
<b>Corporate Governance Framework</b>	
16.	To maintain an overview of the council's constitution in respect of contract procedure rules, financial procedure rules and codes of conduct and behaviour.
17.	To review any issue referred to it by the Chief Executive or a chief officer or any council body.
18.	To consider the council's compliance with its own and other published standards and controls.
<b>Accounts</b>	
19.	To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
20.	To consider the external auditor's report to those charged with governance on issue arising from the audit of the accounts.
<b>Treasury Management</b>	
21.	To consider reports on Treasury Management Activity and the formulation of the Treasury Management and Annual Investment Strategy.

## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

#### Report of the Chief Audit Executive

#### Part 1- Public

#### Matters for Information

**1 OPINION OF THE CHIEF AUDIT EXECUTIVE ON THE FRAMEWORK OF GOVERNANCE, RISK MANAGEMENT AND CONTROL, TOGETHER WITH THE ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR THE YEAR 2018/19**

This report informs Members of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2018/19 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2018/19.

#### 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.

1.1.2 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*. The PSIAS also requires the Chief Audit Executive to *deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

#### 1.2 Opinion of the Chief Audit Executive on the Internal Control Environment

*Purpose of the framework of governance, risk management and control*

1.2.1 The framework of governance, risk management and control is based on an on-going process to identify, evaluate and manage the risks to the Council in the achievement of its objectives. It is a management responsibility to establish, maintain and ensure compliance with the framework of governance, risk management and control. Assurance of the effective operation of the framework

of governance, risk management and control can be sought from Internal Audit, External Audit, other review bodies and Management.

1.2.2 The framework of governance, risk management and control should:

- Set out clear responsibility for policy and decision-making.
- Establish the Council's priorities and objectives.
- Identify, evaluate and manage the risks which may impact on the Council's ability to meet its objectives.
- Ensure compliance with law, regulations, policies and procedures.
- Ensure the economic, efficient and effective use of resources.
- Ensure the accuracy and reliability of financial statements and other published information.

*Basis of the opinion on the framework for governance, risk management and control*

1.2.3 The opinion on the framework for governance, risk management and control is based on the work of the Internal Audit function during 2018/19, full details of which are provided in this report. While all audit results are considered, including the outcomes of any consultancy work, some carry more weight than others. Particular attention is therefore drawn to work undertaken in relation to Risk Management and Corporate Governance in 2018/19. Any other reliable sources of assurance are identified and, where appropriate, considered when arriving at an overall opinion.

1.2.4 Opinion of the Chief Audit Executive on framework for governance, risk management and control:

In my capacity as the Chief Audit Executive, with responsibility for the provision of Internal Audit services to the Council, it is my opinion that Tonbridge and Malling Borough Council's framework of governance, risk management and control substantially contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2018/19.

Whilst it has been identified that the authority has largely established adequate and effective internal controls within the areas subject to Internal Audit review in 2018/19, there are areas where compliance with existing controls should be enhanced or strengthened, or where additional controls should be introduced. Where such findings have been made by Internal Audit, recommendations have been made to management to improve the controls within the systems and processes they operate. The results of all audit work completed are reported to the Audit Committee in accordance with the Internal Audit Charter.

The framework of governance, risk management and control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

### **1.3 Internal Audit and Counter Fraud Establishment**

- 1.3.1 The Internal Audit and Fraud Team report to the Audit and Assurance Manager (Chief Audit Executive).
- 1.3.2 A review of the resource requirements and, in turn, composition of the Establishment in 2018 resulted in a recommendation approved by Management Team that the Establishment comprise one senior internal auditor; a temporary staff budget to buy-in circa 100 days of audit resource; one full-time fraud officer; and one full-time fraud assistant (this post to also provide support to internal audit as required). Since May 2015 the Audit and Assurance Manager (Chief Audit Executive) post has been secured by way of a shared management arrangement with Kent County Council.
- 1.3.3 The posts of senior internal auditor and fraud assistant were vacant in early 2018/19 with both post holders starting in August 2018; the senior internal auditor on a part-time basis. Completion of the 2018/19 Plan has, as you might expect, been effected by the above vacancies and detailed at paragraph 1.4.4/5.
- 1.3.4 The internal auditor or fraud officer assigned to each audit/fraud review is selected by the Audit and Assurance Manager based on their knowledge, skills, experience, discipline and any declared conflicts of interest to ensure that the review is conducted effectively. If a review calls for specialist skills/experience beyond that within the team, arrangements would be put in place to secure

specialist skills from KCC as part of the partnership arrangement or from an external contractor if that is not possible.

## 1.4 Annual Audit Plan

- 1.4.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2018/19 was approved by this Committee on 3 April 2018. The Plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.4.2 *Assurance Work* – this relates to audit work which informs the opinion of the control environment given to the Committee by the Chief Audit Executive. This work focuses on planned audit review of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- 1.4.3 *Consultancy Work* – this relates to Internal Audit team members involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in fraud investigation work. While not directly proving assurance the results of this work are also considered when arriving at the opinion of the control environment given to the Committee by the Chief Audit Executive.
- 1.4.4 As referred to in previous reports progress in completion of the 2018/19 Plan has been effected by the vacancy of both the senior internal auditor post (now filled on a part-time basis) and fraud assistant post earlier in the year. Of the original total of 27 audits (22 Assurance and 5 Consultancy) on the 2018/19 Plan:
- One audit was added to the Plan during the year – Discretionary Disabled Facilities Grants (A).
  - Three audits have been postponed to 2019/20 – Business Continuity Planning (A), IT Strategy (A) and Local Plan (A).
  - Consultancy work for Tonbridge Castle Customer Services Review (C) and parking methods of payment (C) was not required.
- 1.4.5 Of the revised total of 23 audits, three of which were consultancy, at the time of writing the team have completed 18 audits (both assurance and consultancy) with 16 final reports issued (two pieces of consultancy work were ongoing advice and did not require a report), a further three audits are at draft report. Two pieces of work remain in progress and are nearing completion. This represents 91.3% of the amended Plan including Consultancy against a target of 95%. The remainder of the Plan is made up of ad hoc consultancy items, follow-up of recommendations and an allowance for the provision of advice, fraud awareness and investigations.

## 1.5 Assurance Work

- 1.5.1 The Internal Audit team has primarily focused on assurance work in 2018/19 with 20 of 23 audits to provide an assurance level and three undertaken as consultancy (see below). A summary of the current status of audit work for 2018/19 including a summary of findings where finalised is shown in **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.
- 1.5.2 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and agreed with client management prior to finalising the report. In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on the responses received. An escalation process in place that would ultimately result in reporting to Management Team and this Committee should a key control weakness remain; this has not been required for 2018/19.
- 1.5.3 Forty-six recommendations were due for implementation in 2018/19; this excludes 'Low' priority recommendations which are considered to be good practice only and are not followed up and includes any recommendations carried forward as not fully implemented at 31 March 2018. Progress is as follows:
- 5 were followed up as part of the audit of Disaster Recovery.
  - 13 were part of full follow-up audits reported separately.
  - 15 have been closed as implemented.
  - 6 were closed due to being superseded by subsequent audit work.
  - 1 was closed as risk accepted due to the service concluding after further investigation that, in their view, the work/cost required to implement is not justified based on the level of risk.
  - 5 are in progress and/or have agreed, revised implementation dates.

Having assessed the risk of extending these dates there are no concerns to raise.

Audit recommendations made from assurance work undertaken in 2018/19 demonstrate that internal audit continues to make a significant number of recommendations for change within the organisation as a contribution to improving the internal control arrangements of the Council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.

- 1.5.4 The assurance work of the team conducted during the year has contributed to the internal control environment of the Council being maintained and improved, Council resources being more effectively used and a reduction in waste from fraud or error.

## **1.6 Consultancy Work**

- 1.6.1 The Internal Audit team's consultancy work in 2018/19 included support to corporate projects and provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work include on the General Data Protection Regulations, the new Waste Services Contract and the Call Credit project [**Annex 1**]. Consultancy / advisory work is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the Council.

## **1.7 Training**

- 1.7.1 Limited training on audit side was undertaken in 2018/19 due to both staff vacancies and a change in the establishment to one senior internal auditor and a temporary staff budget to buy-in circa 100 days of audit resource.

## **1.8 Quality Assurance and Improvement Programme and Conformance with the Public Sector Internal Audit Standards**

- 1.8.1 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 Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics. No instances of non-conformance have been identified for the year 2018/19. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team.
- 1.8.2 For 2018/19 the team has achieved or exceeded the target set for five of the six indicators measured. Actual performance of the team against these measures is provided at [**Annex 3**]. At the Committee in January 2019 new audit and fraud KPIs were approved to be implemented from 2019/20.
- 1.8.3 It is a requirement of the PSIAS that periodic self-assessments are conducted to evaluate conformance with the PSIAS Code of Ethics and Standards. To ensure compliance with this element of PSIAS an annual internal review of the effectiveness of the Internal Audit function is undertaken and endorsed by Management Team. The Chief Audit Executive (CAE) has conducted the review of effectiveness for the year 2018/19 and the results are presented to this Committee as a separate report.
- 1.8.4 Internal Audit was last subject to an independent External Quality Assessment during 2016/17; this to be undertaken every five years in line with requirements.

The overall opinion was that Internal Audit Generally Conforms to the PSIAS and I consider this assessment remains appropriate.

1.8.5 This time last year following a review of the then updated PSIAS some enhancements to current practice were identified:

- Performance Standard 2050 – Coordination and Reliance

This Standard was enhanced from purely coordinating to emphasis on the requirement to have a consistent process for relying on the work of other assurance providers. Although we rarely rely on the work of others an exercise is needed to map potential assurance providers and update the Audit Manual to include a criteria for reliance. This action remains outstanding.

- Attribute Standard 1112

Requires demonstrable safeguards be put in place where the CAE has responsibilities that fall outside of Internal Audit. This is already addressed in our Audit Charter. However, as the CAE manages the Counter Fraud Team it was agreed that an independent external review of the Counter Fraud function on a peer review basis would be undertaken in 2018/19 to provide assurance that fraud risk is appropriately recognised and addressed. The outcome of the review is discussed later in this report.

## **1.9 Partnership Working**

1.9.1 Since May 2015 the Audit and Assurance Manager (Chief Audit Executive) post has been secured by way of a shared management arrangement with Kent County Council.

## **1.10 Internal Audit Summary**

1.10.1 I believe the team has provided the Council with an effective internal audit service during the year and responded well to the evolving needs of the Council. The work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have played a key role in maintaining the governance, risk and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.

1.10.2 Individual team members continued to be exposed to a variety of work requests and have responded enthusiastically and positively to this whilst ensuring that a high standard of audit work is completed by the team. This enabled the Chief Audit Executive to deliver the opinion that Tonbridge and Malling Borough Council's framework of governance, risk management and control makes a positive contribution to the proper, economic, efficient and effective use of resources in achieving the Council's objectives.

1.10.3 During the forthcoming year the team will continue to develop internal working practices as necessary and remain flexible to respond to the needs of the Council.

### ***Annual Counter Fraud Report 2018/19***

#### **1.11 Prevention and Detection of Fraud, Bribery and Corruption**

1.11.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2018/19.

1.11.2 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 current biennial exercise commenced in October 2018 and required data sets were provided in line with set timescales. 1,018 matches were received and to date 100 have been closed with no further action and 22 have been closed with errors found, 73 have been opened to undertake further enquiries and 823 have yet to be reviewed.

1.11.3 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount data; the most recent results were received in December 2018. There were 814 matches received, 632 have been closed with no further action required and 63 have been closed as errors resulting in underpayments totalling £16,927.74. Of the remaining matches 13 are subject to further enquiries and 106 (of which 73 relate to rising 18s and will be prioritised according to date of birth) have yet to be reviewed. An additional data matching exercise, known as supplementary, using Council Tax Single Person Discount data to a myriad of other data sets held resulted in 1,495 matches. To date 1,454 have been closed with no further action required. Of the remaining matches 25 are subject to further enquiries and 16 have yet to be reviewed.

1.11.4 Details of the NFI data matching exercises above are summarised in the table below.

Data Matches	National Fraud Initiative			
	2019 SPD	2019 Other Data Sets	2019 Biennial	Total
Received	814	1,495	1,018	3,327
Closed with no further action	632	1454	100	2,186
Closed with errors found	63	0	22	85
Closed with fraud found	0	0	0	0
Subject to further enquiries	13	25	73	111
Yet to be reviewed	106	16	823	945

- 1.11.5 The Kent Intelligence Network (KIN), 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. A KIN Operations Manager was recruited in October 2018; significant progress has been made since his appointment including training on and implementation of a new data matching software solution. Next steps in terms of data sets to match and other work to be undertaken are being progressed with a business plan taken to Kent Finance Officers Group (KFOG) identifying three key work streams, Revenues, Housing and Social Care.
- 1.11.6 In 2018 KFOG agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of Small Business Rates Relief (SBRR) nationally, the cost contribution from Tonbridge and Malling was £1,000. Data matches received through this route have been reviewed. The total income due as a result for 2018/19 was £29,527.83 with increased annual liability of £10,330.32. We continue to investigate new cases and have closed several more in 2019/20 already including one case which identified income due in the amount of £6,279.87, which was immediately recovered, with increased annual liability of £1,104.48 and a caution issued. This was the first case in Kent where a formal sanction was applied.
- 1.11.7 At its May meeting KFOG agreed to fund the software for a further year and the software providers are now working in partnership with the KIN, this partnership has had a successful year having been shortlisted for the 2019 Public Finance Awards in the Solutions Partner category and winning the award for Best Initiative in Combatting Fraud at the ALARM Risk Awards
- 1.11.8 In June 2017 KCC provided part funding for the procurement of software and a temporary staff member to proactively identify high risk cases in relation to council tax and business rates where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high risk Single Person Discount cases have been undertaken by the Revenues Team and this has identified a number of cases where they have removed the discount. For 2018/19 53 discounts have been removed resulting in an amount of £39,622.62 to be recovered and increased annual liability of £24,844.75. Civil penalties (net) in the amount of £2,380 were also applied. Current funding arrangements expired at 31 March 2019 and discussion on the continuation of this funding are ongoing.
- 1.11.9 We continue to review areas of fraud risk and direct our work accordingly. In 2018/19 this has included:
- Working with the parking team on a number of investigations identified from Parking Permit applications. This will be explored further with an exercise

to undertake periodic matching of SPD to Residents Parking Permits. In addition a Blue Badge enforcement day has been discussed, with exact timing to be confirmed once this is formally agreed, and KCC have provided fraud awareness training to the Parking Team.

- Discussions with two Housing Associations with regard to Joint Working which could result in recovery of properties with 100% nomination rights for TMBC are in progress. In addition we are considering whether there is other work that would be of mutual benefit including data matching and a key amnesty proposed by the Kent Housing Group. Although TMBC do not have its own housing stock terminating a tenancy results in a property becoming available for someone with a genuine housing need and potentially means housing someone currently in temporary accommodation, which is a significant expense for TMBC.
- The Fraud Team undertook a proactive review of Student Discounts currently in place which identified £1,335.44 of underpayments based on incorrect discounts.

1.11.10 Fraud awareness training continues to be provided to services, targeted at those where risk of fraud is greatest. In 2018/19 we have provided training to new staff in Revenues and Benefits and to Customer Service staff at Tonbridge Castle. In addition we have training planned for Housing and a briefing to provide to the Procurement OSG. Following recruitment of the Fraud/Audit Assistant in August 2018, we are formalising a plan for additional proactive work and raising awareness of fraud more broadly in 2019/20.

## **1.12 Investigating Fraud, Bribery and Corruption**

1.12.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery and corruption, whether this is through internal fraud or external stakeholders or customers, as well as assisting with disciplinary investigations as and when required. The Team works as and when required with a number of external agencies including the Department for Work and Pensions (DWP), the UK Border Agency, Kent Police and NHS Fraud to progress investigations.

1.12.2 In 2018/19 the Counter Fraud Team have closed 420 cases; and received a total of 392 referrals, 319 of which relate to NFI; there are 48 ongoing investigations. The total amount of income due as a result of investigations concluded in 2018/19 is £95,238.97 with increased annual liability of £86,018.92 (this includes the 2018/19 sums referred to in paragraph 1.11.8 above). Civil penalties (net) in the amount of £6,580 were also applied. **[Annex 4]** summarises the results of investigations concluded in 2018/19.

## **1.13 Peer Review of Fraud Team**

1.13.1 A peer review of the Fraud function was undertaken by the Counter Fraud Manager for Kent County Council. This was part of a tri-authority arrangement

that also included Medway/Gravesham to ensure an element of independence. The work included verification of our self-assessment against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption as well as review of a sample of investigations. The findings were positive overall and the report is currently being finalised with a detailed action plan agreed. A copy of the full report once finalised and progress on required actions will be reported to this Committee at a later date.

- 1.13.2 Overall the review concurred with our self-assessment and concluded that ‘The organisation has reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This means that the organisation has put in place effective arrangements across many aspects of the counter fraud code and is taking positive action to manage its risks. The organisation is performing well against the counter fraud code and is actively working to improve its resilience to fraud and to manage its fraud risks. There are some areas of weakness which could undermine resilience, and these should be reviewed. In addition, the organisation should consider further opportunities to develop and extend the effectiveness of its counter fraud arrangements.’
- 1.13.3 For investigations the review concluded that there were ‘good arrangements in place to ensure referrals are thoroughly investigated, appropriately concluded and suitable sanctions are applied. We saw evidence of all reasonable lines of enquiry being pursued and adherence to relevant legislation such as the Police and Criminal Evidence Act (PACE) and the Criminal Procedures Investigation Act (CPIA). Local templates were used correctly, and suspects/witnesses were interviewed in an appropriate manner.’ However it was noted that there were ‘...some instances of delays in approving referrals for investigation and the investigations themselves. The delays may have been explainable and/or justified in the circumstances but the explanation for the gaps in activity were not recorded in the documents and systems made available to us.’

## **1.14 Legal Implications**

- 1.14.1 The Accounts and Audit Regulations place a statutory requirement on local 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.
- 1.14.2 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.
- 1.14.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

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

- 1.15.1 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.
- 1.15.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as the National Fraud Initiative and Local Government Counter Fraud and Corruption Initiative. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

## **1.16 Risk Assessment**

- 1.16.1 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 framework for governance, risk management and control.
- 1.16.2 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

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Risk Management	4	Draft Report	TBC	
Safeguarding	3	Complete	Adequate	<p>The overall objective of the audit was to provide management and Members with an opinion as to the adequacy and effectiveness of the Council's arrangements in place to safeguard children and adults at risk from abuse, neglect or exploitation.</p> <p>While some areas for development remain, significant progress has been made since that last Internal Audit Review of Safeguarding undertaken in 2016/17. The Safeguarding policy is kept under regular review and updated as necessary. Staff and elected members have been provided with Safeguarding awareness training and Safeguarding Designated Officers are trained and fully aware of their responsibilities. All safeguarding concerns are recorded on a secure database with access being suitably restricted. In addition, the Safeguarding Task Group meet regularly to discuss Safeguarding across the organisation and to receive updates on serious case reviews which may be applicable. Staff regularly attend Safeguarding meetings with external partners and provide feedback as necessary to Designated Officers. Work has been undertaken to identify posts which require a DBS check with a list of those posts agreed by Management Team.</p> <p>However, while the current Safeguarding Policy includes reference to ensuring necessary checks are done there is no specific policy or guidance on identifying and assessing whether posts require an Enhanced or Standard check and posts that do not qualify for either but could have a Basic level DBS check have not been considered. The Council does not currently have any agreed procedures in place for ensuring that contractors comply with the Council's Safeguarding policy and relevant procedures.</p>
Procurement	2	Complete	Adequate	<p>The overall objective of the audit was to provide management and Members with an assurance as to the adequacy and reliability of the controls in place to manage the risks associated with Procurement.</p> <p>A number of strengths were found including that there are several procurement policies and procedures which provide guidance to staff with an overarching Procurement Strategy which was appropriately approved, although it was noted that policies and procedures are not version controlled with review dates and owners. The Council's Constitution was revised and approved in July 2018 which included a revision to the Contract Procedure Rules. The contracts register published on the Council's website complies with the Local Government Transparency Code 2015, with the exception of omitting a few start/end dates for</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>contracts let in 2016/17. The majority of contracts tested within the £5k to £100k had obtained three quotes in line with the Council's expected procedure and for most of the sample tested justification was given for the rational for choosing the preferred supplier, a ratio of price/quality, 30/70 had been set in the evaluation criteria.</p> <p>However, discussions confirmed that there is no proactive monitoring or consideration given to entering into contracts based on cumulative spend that contract expiry dates are not formally monitored or recorded. There is a monthly process for updating purchase order (PO) spend to the contracts register but limited monitoring of non-PO spend. The responsibility of updating the contracts register has recently changed and monitoring to ensure completion is not yet in place. In addition, testing found examples of suppliers that were omitted from the contracts register which may be due to there being no PO exception list in place.</p>
Information Governance – General Data Protection Regulations	Ongoing	Complete	N/a	Through 2018/19 we have continued to provide ongoing advice in a consultancy capacity with regard to GDPR compliance and this includes attendance at the Information Governance Officer Group. This will continue into 2019/20.
Information Governance – General Data Protection Regulations	4	Draft Report	TBC	
Business Continuity Plan including Emergency Planning	4	Postponed	N/a	This audit has been postponed to 2019/20 in recognition of resource pressure caused by work being undertaken to prepare for Brexit.
Public Safety	2	Draft Report	TBC	
Corporate Governance – Democratic Process and Decision Making	2	Complete	High	The Constitution has been subject to review by a number of different committees prior to being approved by Full Council. It is widely published and therefore readily available to Members, Officers and members of the public. The Constitution contains sufficiently detailed guidance on the decision-making process. Suitably detailed Terms of Reference are in place for all Committees and testing established that all

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>Committees are working in accordance with their Terms of Reference. Similarly, there is an approved scheme of officer delegations in place.</p> <p>Accurate and timely information is provided to members where decisions or recommendations are required. Recommendations made by Advisory Boards and any other Committees are accurately conveyed as part of the decision making and approvals process. This ensures that Cabinet and Full Council are making informed decisions based on items which have already been discussed, reviewed and considered by other Committees.</p> <p>Member attendance at meeting is subject to review by the Monitoring Officer. Testing identified that attendance for the period 01 January 18 to 31 January 19 varied from 96% to 13%. While the majority of Members achieve attendance in excess of 50%, a small number are approaching the point whereby they have not attended a meeting for 6 months. Section 85 of the Local Government Act requires all members to attend a meeting at least every 6 months, or otherwise they will cease to be a Member of the authority. Discussions with the Monitoring Officer established that this requirement could be better communicated to all members as part of the new member induction process.</p>
Tonbridge Castle Customer Services Review	N/a	N/a	N/a	Not required.
Starters and Leavers Payroll and Personnel processes	3	Complete	Substantial (Payroll) Limited (Personnel)	<p>The overall objective of the audit was to provide assurance that robust controls are in place within the Payroll and Personnel function to effectively manage the Starters and Leavers process.</p> <p>All new starters and leavers in our sample had been appropriately authorised and had been promptly processed by Payroll. Paperwork received by Payroll is scrutinised for errors and an example was found where an overpayment had been identified and was promptly resolved by the Payroll Team. Employee's pro-rated first and last pay had been calculated accurately, including any required deductions or payments.</p> <p>However testing to confirm if the required ID and right to work checks had been completed prior to employment identified occasions where either there was no evidence of the required checks being performed and/or dates checks were undertaken were not documented; one case was identified where checks made by an agency had been accepted without further verification when the individual became a permanent member of staff. In addition, testing identified a number of</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>instances where references for new starters did not comply with policy, including one where a verbal reference had been deemed acceptable and one with no references evident on file.</p> <p>There are limited policies and procedures to provide guidance to officers regarding the starter and leaver processes. A review identified that policies are either not up to date or do not reflect current practice and highlighted instances where no documented procedures exist.</p>
IT Disaster Recovery Plan	4	Complete	N/a	<p>A full audit was not undertaken as there has been limited progress with the DRP since our last audit in 2016 which identified that the DRP as whole had not been updated since 2005. Instead we sought to establish a position statement which clarifies progress made.</p> <p>We were informed that elements of the DRP have been updated however a full review has not been undertaken and is due once the Business Continuity Plan (BCP) has been formally approved.</p> <p>Progress to date includes that Tonbridge Castle has been chosen as the disaster recovery location to host the servers and storage. In our opinion this was the only viable option, whilst there are associated costs, it was the lowest risk and provides the best possible solution in the event of a major incident. Security and enabling works to the Castle in preparation of the relocation were completed by the end of September 2018. The equipment to be moved is due for replacement in November 2019 but this has been brought forward and procurement is in progress, however this has added a 10-month delay to the re-location. In the meantime the equipment is still hosted in the Gibson West wing posing a risk that there is insufficient back-up should there be a disaster in the interim. IT have not had sight of any business impact assessments and while these form part of the BCP it would have been beneficial to engage with them as there are many interdependencies.</p> <p>A full audit is being undertaken in 2019/20.</p>
Council Tax Administration	3	Complete	Adequate	<p>The overall objective of the audit was to provide management and Members with an opinion as to the adequacy, effectiveness and reliability of controls in place to manage the risks of operating the Council Tax Administration processes.</p> <p>All account numbers, property references and addresses tested were found to be unique, with liable parties assigned to all current properties. Council Tax Demand Notices were promptly issued and there was comprehensive recording and checking</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>of the annual Billing process. Accounts are credited correctly and promptly where liable parties provide the account number and generally evidence of entitlement to discounts and exemptions was recorded against accounts tested.</p> <p>However, testing established that reduced contingency resource to cover the long-term absence of experienced inspection officer, combined with a highly manual system, limits inspections for new properties. (It is noted that an extension has been granted to a temporary contract aimed at addressing this). Minor separation of duties issues were identified with regards to valuations office reconciliations and there was limited contingency for running reconciliations for non-Direct Debit payments where staff have other priorities. Timely monitoring of some exception reports, the suspense account, and credits on accounts could be enhanced.</p>
Council Tax fraud and error – KCC Funding	2	Complete	N/a	This piece of consultancy work was undertaken on the Call Credit project, which is aimed at increasing the council tax yield. The work was undertaken to act as a self-assessment for the Council prior to the mid-year review scheduled for October 2018 by KCC. A number of recommendations were raised with the business
Benefits – Change of circumstances	3	Complete	Adequate	<p>The overall objective of the audit was to provide assurance that changes in circumstances for Housing Benefit and Council Tax Reduction are managed effectively.</p> <p>Our review established that there is clear communication of the duty to report changes in circumstances and a high number of changes are implemented within target days with supporting evidence and notes generally sufficient. Performance in relation to targets is above national average and it was noted that the SHBE extract may not be reporting correct information leading to under reporting, i.e. performance may be even better than currently reported.</p> <p>However, some areas were identified where enhancements could be made; this included some inconsistency in providing examples of when a change is required as well as differences in the level of contact information provided. A report spreadsheet has been stored on an officer's desktop rather than a shared drive which could limit access for other users in the event of absence. There are no guidance notes for the reports run and the Diary Dated Claims report is not cumulative; records to verify that all claims on the report have been reviewed are not retained. The LOCTA concurrent HB mismatch report was not being run as there was uncertainty about who was responsible for this and the warning flag that has been implemented in its place is reliant on the claim being reviewed and relevant action being taken reactively. Agreement has been reached that these will</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>be investigated, in the first instance, by the Benefits team, however this had not yet started.</p> <p>It was noted that there is a lack of an established, documented training programme however the service felt this did not represent a significant risk therefore no action is planned.</p>
Counter Fraud Function	3	Complete	N/a	<p>This piece of work involved a tri-authority peer review of Fraud functions. TMBC completed a review for Medway/Gravesham with the final report issued in May 2019. Kent County Council undertook the review of TMBC's Fraud function and progress together with detail of the findings have been included at paragraph 1.13 in the main body of this report.</p>
Creditors, including VAT	1	Complete	Creditors – Adequate VAT - High	<p>A number of areas for development were identified for Creditors with recommendations made accordingly. In particular Financial Procedure Rules require Purchase Orders to be raised in advance of goods or services being received from the supplier. Although there are legitimate exceptions, testing identified numerous instances where expenditure incurred on goods and services had no purchase order raised or where the order had been raised after the invoice was received.</p> <p>Review/rationalisation of authorising officers and suppliers on the system is required; we identified instances where staff have authorisation limits in excess of need and a number of officers with ability to authorise had not done so. A large number of suppliers have duplicate accounts and a significant number of suppliers are inactive and need to be removed. It is understood that 'purging' these suppliers has been difficult to date due to how the system works, but an update is being tested with a view to carrying out the purge in the short term. In addition the ability to create or amend new supplier accounts is not limited to staff from Exchequer meaning that a large number of staff from across the authority are able to set up supplier bank details. Exchequer staff do however check the newly set up bank details against the invoice received from the supplier. Further changes to existing suppliers made by staff across the Council generate a report which is checked by Exchequer staff.</p> <p>Review of the payment process identified that, mainly due to the size of the Exchequer team, there is no separation of duties in the process, and no independent checks are undertaken on payment reports before being sent to the bank for processing. All approvals for BACS payment are obtained after the payment has been sent. We did note that there are a number of retrospective compensating</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>controls that would ensure identification of errors after the payment file had been sent and there is the opportunity to recall the file provided it is checked timely.</p> <p>Three duplicate payments were made during the year. One payment has been repaid by the supplier but the other two are outstanding; the amounts are not material. It was established that in all 3 cases, staff outside of Exchequer had used different invoice numbers thereby circumventing inbuilt system controls which allowed the duplicate invoices to be processed.</p> <p>In relation to VAT our review found sound procedures for processing VAT invoices from suppliers and for the recovery of input VAT. Review of procedures for the raising of invoices established that VAT is being correctly applied. Some minor technical issues were identified where staff are on occasion raising invoices as exempt or zero rated when in fact they should be raised as being outside the scope of VAT. No errors were identified with the most recent VAT partial exemption calculation.</p>
Treasury Management	2	Complete	High	<p>The audit established a number of key strengths. The Treasury Management Strategy is subject to regular review and approval by full Council. All investment decisions were undertaken in accordance with the Strategy, were recorded on a suitably detailed cashflow which forms the basis for all investment decisions and were approved by Senior Management prior to being made. Staff responsible for undertaking the treasury management function are well trained, and fully understand the priorities for the Council as being firstly security and liquidity of funds, and then return on investment. Financial Services staff responsible for treasury management receive regular updates from Treasury Management advisors, and only make investment decisions after having considered the most recent information provided by those advisors.</p> <p>It was noted that the Audit Committee are responsible for the review of treasury management activities; only 3 members of the current Committee have been provided with Treasury Management training and that training was received in 2014. However, in light of the May 2019 elections, it would make sense to provide training after any new Committee Members have been appointed. In addition The Council re-appointed its existing Treasury Management advisors in April 2016 for a further term of 5 years, the total cost of the contract being around £40,000. Officers undertook informal market testing and subsequently obtained 3 quotes however further market testing in compliance with Contract Procedure Rules as part of the process for appointing new treasury management advisors is advised when the current contract is near expiry.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
IT – New Strategy	TBC	Postponed	N/a	The new IT Strategy was agreed in May 2018, as such we believe there would be limited value in undertaking an audit at this stage, the audit will now be undertaken in Q1 of 2019/20 to allow progress in implementation.
Local Plan	4	Postponed	N/a	The Plan has now been to consultation and will be submitted to the Secretary of State for approval, as such there is limited value that audit can add at this stage. The Local Plan audit has been replaced by an audit of the Discretionary Disabled Facilities Grant.
Development Management	3	Complete	High	<p>The overall objective of the audit was to provide management and Members with an opinion as to the adequacy, effectiveness and reliability of the controls in place to manage the risks of operating the Development Management function.</p> <p>Overall we found that the benefits of the restructures within the Planning Department as a whole are being realised through more efficient working practices and increased resilience. Planning applications are processed in accordance with National Planning Policy and not before the correct fee has been received. Good procedures are in place for the identification and notification of consultees for planning applications and personal data is redacted appropriately on responses from consultees. Performance data is accurately reported both internally and externally.</p> <p>A minor area for potential improvement was noted in that excessive officer time is spent printing or copying documents which are already available to be viewed electronically and there is a general reliance on paper files when the same information is held electronically.</p>
Prevention of Homelessness Act	4	Complete	Adequate	<p>The overall objective of the audit was to provide assurance as to the adequacy and effectiveness of the controls in place to ensure that the Council is complying with the recently introduced Homelessness Reduction Act 2017.</p> <p>Overall procedures are broadly in line with the Housing Reduction Act 2017 and all staff working with homeless applicants are aware of the Act and the duties placed upon the Council to ensure compliance. The Council has an approved Homelessness strategy, although this had not been published at the commencement of the audit. There is a Homelessness Forum to monitor delivery</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>of the strategy which had met once at time of reporting. Access to advice and assistance is available at all times during normal office hours with arrangements in place for 24-hour emergency cover. Although invoices in respect of temporary accommodation charges are independently checked before being approved for payment a large number of invoices are written off which may be due to rent statements not being provided to tenants.</p> <p>Testing identified that Personal Housing Plans are not consistently being kept up to date and that valid Landlord Gas Safety certificates are not in place for all properties being used as temporary accommodation. There are a number of wasted Homelessness appointments caused by the lack of a tri-age system for all homeless enquiries. This can lead to delays in being able to offer initial appointments to people who are potentially (or at risk of being) homeless.</p>
Contaminated Land	3	Complete	Adequate	<p>The overall objective of the audit was to provide assurance that adequate controls exist to manage risks in relation to contaminated land. There is an approved Contaminated Land Strategy which has been subject to regular review. The Strategy was found to detail the approach the Council takes to identify, assess, record and remediate land across the Borough in accordance with the Environmental Protection Act 1990.</p> <p>A suitably detailed electronic register was found to be in place to record all potentially contaminated land across the Borough. However, testing established that over 300 from 667 sites listed on the database had not been given a prioritisation score resulting in the risk that a site requiring a more detailed land inspection may go undetected. Consequently, the Council is unable to determine the level of risk at each site. We did however establish that robust procedures are in place to undertake monitoring and recording of contaminated gas readings from boreholes at the three sites across the Borough. The application of those procedures for borehole monitoring identified potential concerns at the Joco Pit site in early 2018. Local residents were kept suitably informed on the position as new information became available. There is a risk however that lessons learnt will not be captured and shared for future reference.</p> <p>Testing identified that not all contaminated land conditions requested by the Contaminated Land Officer are being added to planning decision notices. We were informed that there are valid reasons why the conditions requested had not been added although this was not documented with no evidence that discussions had taken place to arrive at a mutually agreeable outcome. In recognition the</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				Development Control Manager has already acted to ensure that the Contaminated Land officer is consulted where it is anticipated that a condition originally requested is varied or not included in the final planning application decision notice.
Contract Management	4	In progress	TBC	
Waste Contract Re-let	Ongoing	Complete	N/a	We provided ongoing advice in a consultancy capacity up to contract award including attendance at the tender opening. Work will continue into 2019/20.
Parking Methods of Payment	N/a	N/a	N/a	Not required.
Follow-up DHP	4	Draft Report	TBC	
Follow-up NNDR	3	In progress	TBC	
Discretionary Disabled Facilities Grants	N/a	Complete	Limited	<p>This audit was undertaken at the request of the Section 151 Officer in her statutory capacity following identification of an overspend on the Discretionary Disabled Facilities Budget with the objective of establishing root causes. The overall budget set for Disabled Facility Grants (DFGs) for 2018/19 was £800k with the split being £775k for mandatory grants and £25K for Discretionary payments.</p> <p>The overall root cause initially appears to be a fundamental misunderstanding; the service's understanding was that the budget allocation for Discretionary payments was flexible and could be managed in conjunction with the mandatory element. Although this was the case, any movement in budgets should have been managed through a virement process; this indicates a lack of knowledge or awareness of financial procedures possibly due to lack of training. An email notification from Finance of a projected overspend was sent in September. There has now been a halt to the discretionary payments and 3-month delay on processing mandatory payments. Notwithstanding this both DFG budgets are forecast to overspend; with commitments the total forecast position in the Capital Plan at the end of October was an overspend of £406k. At the time this meant that there was no future funding available for the ongoing Occupational Therapist, Housing and Health Coordinator and Handy Person pilot schemes. This has been rectified for 2018/19 by increased funding from central government.</p>

Audit Review Title	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
				<p>A number of issues were identified including that the Discretionary Housing Assistance Policy in place sets the financial limit for discretionary payments made as top-ups to mandatory grants as £30,000. This exceeds the total annual budget set for discretionary payments. It was noted that all of the Discretionary DFGs reviewed were awarded in line with the conditions set out in this policy. Demand for discretionary grants has increased. There were 10 grants paid in 2017/18 and 36 in 2018/19 this appears to be due to an increase in top-up cases, both in numbers and value. Of the cases reviewed at least 50% of high value top up cases were identified as Housing Association properties. This indicates that Clarion no longer contributing toward adaptation to their properties and promotion of the Local Housing Authority's responsibilities for funding housing adaptations may be a factor.</p> <p>A review of reports from the Uniform system identified several gaps in information, which would make it difficult to manage the DFG budgets effectively. Including that reports do not differentiate between mandatory or discretionary DFGs or between DFGs and other Housing Assistance payments. There is no single report to show approved grants (committed spend) where payment is still outstanding. Discussion with officers established that regular monitoring and forecasting of activity and budget has not been taking place in part due to Uniform reporting being difficult and time consuming and there is reliance on the capital monitoring sheets sent by Finance. There has been a new reporting system implemented and work is ongoing with IT development to develop a new suite of reports.</p> <p>The lack of available monitoring, especially the lack of monitoring with regard to commitments, prevented the potential budget pressures being identified even earlier than above. We established that the high number/value of grants approved in 2017/18 led to a substantial commitment carried forward into this year and therefore the pressure already existed at budget set-up.</p> <p>Reconciliation of DFG payments occurs between Housing and Finance at year end. A review of Discretionary cases on the uniform system found that 3 (totalling £4,047) out of the 13 payments reviewed were not discretionary payments. These had been miscoded due to manual input errors and the report development stated above is also planned to automate the process for raising payment from finance. Review of Discretionary payments on Uniform also identified a number of grants where relevant referral documents had not been uploaded onto the system.</p>

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## Definitions of Audit Opinions

<b>High</b>	<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>
<b>Substantial</b>	<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>
<b>Adequate</b>	<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>
<b>Limited</b>	<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>
<b>No Assurance</b>	<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>

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## Audit and Fraud Performance Measures

<b>Performance Measures</b>	<b>Actual Performance 2018-19</b>	<b>Opinion</b>	<b>Performance in 2017-18 for comparison</b>
At least 80% of staff time (excluding holidays, sickness, etc.) to be spent on productive audit activity providing client services. (Target of 80 per cent)	91.3% of available audit resources spent on productive audit activity during 2018/19.	<b>Target achieved</b>	81.6% Target achieved
Delivery of the Annual Audit and Fraud Plan. (Target of 95 per cent)	91.3% of the 2018-19 annual audit plan completed.	<b>Target not achieved</b>	98% Target achieved
Effectiveness of Internal Audit gaining commitment (1) based on the number of recommendations made against the number of recommendations accepted by Management. (Target of 90 per cent)	93% (59.5 of 64) of all recommendations made were accepted by Management.	<b>Target achieved</b>	93% Target achieved
Effectiveness of Internal Audit gaining commitment (2) based on the number of recommendations revisited in the period where Management have confirmed implementation. (Target of 90 per cent)	Management assurance of implementation (or revised dates agreed) was obtained for 95% (20 of 21) of recommendations revisited in the period.	<b>Target achieved</b>	90% Target achieved
Client Satisfaction with Internal Audit based on post audit feedback. (Target of 80 per cent)	Responses* received post audit returned a 92% satisfaction rating.	<b>Target achieved</b>	100% Target achieved
Positive statement by the External Auditor regarding satisfaction with the work of Internal Audit.	Grant Thornton has confirmed that the arrangements for internal audit contribute to an effective internal control environment.	<b>Target achieved</b>	Target achieved

\*Based on 9 completed questionnaires received at time of reporting

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Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect Entitlement	Fraud Proven /Prevented	Reduction In Weekly Entitlement £	Total Underpayment /Overpayment £	Increase In Liability £	Civil Penalty No.	Civil Penalty £
NNDR	5	1	4	0	198.66	29,527.83	10,330.32		
SPD	387	234	151	2	1,310.60	54,531.63	68,151.20	94	6,580
CTR	15	8	4	3	144.95	9,703.74	7,537.40		
HB	5	3	0	2	129.13	1,475.77			
Housing	3	3	0	0					
Parking	4	2	0	2					
Planning	0	0	0	0					
Licensing	0	0	0	0					
Other	1	1	0	0					
	<b>420</b>	<b>252</b>	<b>159</b>	<b>9*</b>	<b>1,783.34</b>	<b>95,238.97</b>	<b>86,018.92</b>	<b>94</b>	<b>6,580</b>

\*In relation to the 9 cases where fraud was proven or prevented, 5 cautions were issued, 2 parking permits were revoked and the remaining two cases prevented SPD and housing benefit claims being actioned.

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## TONBRIDGE & MALLING BOROUGH COUNCIL

### AUDIT COMMITTEE

29 July 2019

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

#### Part 1- Public

#### Matters for Information

#### 1 AUDIT FEE LETTER 2019/20

Report to inform Members of the receipt of the Audit Fee Letter 2019/20.

#### 1.1 Introduction

1.1.1 I have received from Grant Thornton the Audit Fee Letter for 2019/20 [**Annex 1**] which sets out details of the audit fee for the Council along with the scope and timing of audit work and the audit team.

1.1.2 The fee represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes. The audit fee for 2019/20 is £35,248, the same as that for 2018/19. The fee for 2019/20 housing benefit subsidy certification work agreed separately is £10,000 subject to completion of the 'workbooks' resting with the Council and a variable fee for any additional testing required.

#### 1.2 Legal Implications

1.2.1 None.

#### 1.3 Financial and Value for Money Considerations

1.3.1 As set out above.

#### 1.4 Risk Assessment

1.4.1 None.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton  
Director of Finance and Transformation

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

15<sup>th</sup> April 2019

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**Grant Thornton UK LLP**  
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London  
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www.grant-thornton.co.uk

Dear Sharon,

## Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

### Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £35,248 which is the same as in 2018/19.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;

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

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### Value for Money conclusion

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

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	8,812
December 2019	8,812
March 2020	8,812
June 2020	8,812
<b>Total</b>	<b>35,248</b>

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2019 to March 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2020 and work on the whole of government accounts return in July 2020.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2019 to March 2020	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2020	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	January 2020 to July 2020	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2020	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2020	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

### Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Paul Dossett	020 7728 3180	Paul.Dossett@uk.gt.com
Engagement Manager	Andy Ayre	020 7728 2328	Andy.J.Ayre@uk.gt.com
In Charge Auditor	Hazel Strudwick	01293 554035	Hazel.J.Strudwick@uk.gt.com

### Additional work

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

### Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via Sarah.Howard@uk.gt.com.

Yours sincerely



Paul Dossett

Engagement Lead

Grant Thornton UK LLP

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# Agenda Item 12

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

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# Agenda Item 13

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

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

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# Agenda Item 14

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

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