

TONBRIDGE & MALLING BOROUGH COUNCIL



EXECUTIVE SERVICES

Chief Executive

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

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

17 July 2020

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 online via Microsoft Teams on Monday, 27th July, 2020 commencing at 7.30 pm. Information on how to observe the meeting will be published on the Council's website.

Yours faithfully

JULIE BEILBY

Chief Executive

A G E N D A

PART 1 - PUBLIC

- | | | |
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| 1. | Apologies for absence | 7 - 8 |
| 2. | Declarations of interest | 9 - 10 |

3. Minutes 11 - 14

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 20 January 2020

Matters for Recommendation to the Council

4. Audit Committee Annual Report 15 - 22

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

5. Local Code of Corporate Governance 23 - 44

This report informs Members of the outcome of the annual review of the Local Code of Corporate Governance.

6. Treasury Management Update and Annual Report for 2019/20 45 - 70

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 2019/20 is also included in this report.

Decisions to be taken under Delegated Powers

7. Risk Management Update 71 - 84

An update on the risk management process and the Strategic Risk Register.

8. Annual Governance Statement 2019/20 85 - 90

This report presents the Annual Governance Statement for the year ended 31 March 2020 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 2019/20.

9. Statement of Accounts and External Auditors report on the Outcome of the Audit of Statement of Accounts 2019/20 91 - 102

This report presents a set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report/ progress update on the audit of the Accounts. Members are asked to note both the Statement of Accounts as currently presented and the external auditors report/ progress update on the audit of the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report/ progress update and to answer questions.

Due to its size, the Statement of Accounts will be published as a supplement.

10. Members Assurance on Compliance with International Standards on Auditing 103 - 106

Under International Standards on Auditing our external auditor asks those charged with governance, which for this purpose is the Audit Committee, to consider and formally respond to a set of questions.

11. Review of the Effectiveness of Internal Audit 107 - 114

This report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function for the year 2019/20.

12. Internal Audit and Fraud Plan 2020/21 115 - 120

This report seeks Members' approval of the Internal Audit and Fraud Plan for the year 2020/21.

13. Internal Audit Charter 121 - 128

The purpose of the report is to seek approval of the Internal Audit Charter.

Matters submitted for Information

14. Management Team Assurance on Compliance with International Standards on Auditing 129 - 136

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

15. Opinion of the Chief Audit Executive on the Internal Control Environment, together with the Annual Internal Audit Report and Annual Counter Fraud Report for 2019/20 137 - 174

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 2019/20 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2019/20.

16. National Audit Office Guide for Audit and Risk Committees on Financial Reporting and Management during Covid-19 175 - 184

A report advising Members of two Papers, one produced by the National Audit Office and the other by Grant Thornton UK LLP on the impacts of Covid-19.

17. Scale of Audit Fees 2020/21 185 - 222

The report informs Members of the scale of audit fees for 2020/21.

18. Urgent Items 223 - 224

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

19. Exclusion of Press and Public 225 - 226

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

PART 2 - PRIVATE

Matters submitted for information

20. Insurance Claims History 227 - 232

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

This report serves to inform Members as to the nature and volume of liability and property damage insurance claims submitted for the year ended 31 March 2020.

21. Urgent Items 233 - 234

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

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Apologies for absence

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Declarations of interest

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 20th January, 2020

Present: 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 and Cllr K B Tanner

Grant Thornton, External Auditors: Mr A Ayre (Manager)

Councillors N J Heslop, D Lettington, Mrs A S Oakley, W E Palmer and M R Rhodes were also present pursuant to Council Procedure Rule No 15.21.

An apology for absence was received from Councillor L J O'Toole

PART 1 - PUBLIC

AU 20/1 DECLARATIONS OF INTEREST

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

AU 20/2 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 1 October 2019 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 20/3 RISK MANAGEMENT

The report of the Management Team invited the Committee to review the Risk Management Strategy and accompanying Risk Management Guidance which set out the Council's risk management objectives and detailed roles and responsibilities of officers, Members and partners in the identification, evaluation and cost-effective control of risks. The report also provided an update on the risk management process and Strategic Risk Register.

Whilst it was noted that no new risks had been added to the Register since the last meeting in October, the entry in relation to the Waste Contract had been escalated to Red (high risk) following performance issues. Members were also advised that the entry in the Register regarding Financial position/Budget deficit had been updated in the light of receipt of the provisional finance settlement.

RECOMMENDED: That

- (1) the Risk Management Strategy and accompanying Risk Management Guidance set out at Annexes 1 and 2 to the report be commended to the Cabinet for adoption by the Council;
- (2) the updates to the Strategic Risk Register since the last iteration be noted; and
- (3) the escalation of the Waste Contract item to Red (high risk) be noted.

AU 20/4 TREASURY MANAGEMENT UPDATE AND TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2020/21

The report of the Director of Finance and Transformation provided details of investments undertaken and return achieved in the first nine months of the current financial year and introduced the 2020/21 Treasury Management and Annual Investment Strategy. Attention was drawn to the higher than budgeted investment income from cash flow and core cash at the end of December 2019 and the incorporation of the anticipated increase of £117,000 for the year in the revised estimates.

RECOMMENDED: That

- (1) the treasury management position as at 31 December 2019 be noted together with the higher level of income incorporated in the 2019/20 revised estimates; and
- (2) the Treasury Management and Annual Investment Strategy for 2020/21 set out at Annex 5 to the report be adopted.

DECISIONS TAKEN UNDER DELEGATED POWERS IN ACCORDANCE WITH PART 3 OF THE CONSTITUTION (RESPONSIBILITY FOR COUNCIL FUNCTIONS)**AU 20/5 ANNUAL REVIEW OF ANTI-FRAUD POLICIES AND WHISTLEBLOWING POLICY**

The report of the Director of Finance and Transformation gave details of the outcome of the annual review of the Council's Anti-Fraud, Bribery and Corruption Policy which resulted in the anti-fraud policies for Housing Benefit and Council Tax Reduction being amalgamated into the overall Policy. It was noted that a number of updates had been made following a review against CIPFA's self-assessment and an amendment to section 3 of the Policy in respect of specific responsibilities was presented at the meeting.

The Whistleblowing Policy was also presented, no changes to which were considered necessary following the annual review.

RESOLVED: That

- (1) the Anti-Fraud, Bribery and Corruption Policy set out at Annex 1 to the report be approved subject to the addition of the following paragraphs:

3.1 The Director of Finance and Transformation has overall responsibility for this policy and its implementation.

3.2 The Audit and Assurance Manager has responsibility to ensure there is a sufficient action plan covering both proactive and reactive Counter Fraud, Bribery and Corruption activity and sufficient resources to deliver the action plan; and

- (2) the General Purposes Committee be invited to approve the Whistleblowing Policy set out at Annex 2 to the report.

AU 20/6 ANNUAL REVIEW OF ANTI-MONEY LAUNDERING POLICY

The report of the Director of Finance and Transformation gave details of the outcome of the annual review of the Council's Anti-Money Laundering Policy. Reference was made to the 5th Anti-Money Laundering Directive which came into force in January 2020 and was taken into account in the review although no changes to the Policy were considered necessary at this time. It was noted that the approved Policy would be circulated to all staff using Netconsent and made available on the Council's intranet and external website.

RESOLVED: That the Anti-Money Laundering Policy and supporting guidance set out at Annexes 1 and 2 to the report be approved.

AU 20/7 ACCOUNTING POLICIES

The report of the Director of Finance and Transformation presented the Accounting Policies proposed to be used in preparation of the 2019/20 Financial Statements. It was noted that only minor changes were required to those adopted for 2018/19.

RESOLVED: That the Accounting Policies to be used in the preparation of the 2019/20 Financial Statements, as set out at Annex 1 to the report, be approved.

AU 20/8 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 function for the period April to December 2019. This included progress against the 2019/20 plan and

details of proactive work such as a counter fraud awareness week for staff. The report also outlined the quality assurance activity undertaken and the resultant action plan. Key performance indicators for the Internal Audit and Counter Fraud function had been reviewed and Members were invited to agree some changes proposed for the 2019/20 financial year.

RESOLVED: That the report be received and noted and the key performance indicators set out in paragraph 1.4.6 of the report and Annex 5 thereto be approved.

MATTERS SUBMITTED FOR INFORMATION

AU 20/9 GRANT THORNTON 2019/20 AUDIT PLAN AND AUDIT PROGRESS REPORT AND SECTOR UPDATE

The report of the Director of Finance and Transformation introduced two papers from the external auditors, the 2019 Audit Plan and the Audit Progress Report and Sector Update. Mr Andy Ayre, Audit Manager, presented the reports and answered questions raised by Members.

RESOLVED: That the report be received and noted.

AU 20/10 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 7.58 pm

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Chair of the Audit Committee

Part 1- Public

Matters for Recommendation to Council

1 AUDIT COMMITTEE ANNUAL REPORT

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

1.1 Introduction

- 1.1.1 The Accounts & Audit (England) Regulations impose a responsibility on a local authority “for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body’s functions and which includes arrangements for the management of risk.”
- 1.1.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out the role of Audit Committees in their Practical Guidance for Local Authorities 2018. This states that “*the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.*”
- 1.1.3 The Audit Committee comprises nine Members. The Committee has four meetings each year at which reports submitted by Officers and the External Auditor are considered. By consideration of these reports and matters raised within them it is considered that the Audit Committee fulfils the core functions of an Audit Committee as set out in the CIPFA Guidance and is able to give independent assurance to the Council to meet the requirements of the Accounts & Audit (England) Regulations.
- 1.1.4 The core functions of the Audit Committee are dealt with in the following paragraphs.

1.2 Assurance Statements

- 1.2.1 In April 2019 the Committee endorsed the revised Local Code of Corporate Governance that sets out how the Council will comply with the principles of the 2016 CIPFA/SOLACE (Society of Local Authority Chief Executives) “Delivering Good Governance in Local Government Framework 2016”.
- 1.2.2 The Committee is required to consider and approve the contents of the Annual Governance Statement (AGS), which took place in July 2019. The AGS explains how the Council complies with the Local Code of Corporate Governance and the Accounts & Audit Regulations.
- 1.2.3 The AGS is supported by signed Assurance Statements provided by members of the core Management Team and the three statutory officers and is prepared by way of a self-assessment questionnaire and supporting evidence. No significant concerns were raised as a result of this exercise.
- 1.2.4 At the April 2019 Audit Committee meeting there was confirmation from both Management Team and Audit Committee that the Council had complied with International Standards on Auditing.

1.3 Internal Audit Function

- 1.3.1 The Audit Committee has a role in relation to the Council’s Internal Audit function to: -
- Oversee its independence, objectivity, performance and professionalism.
 - Support the effectiveness of the Internal Audit process.
 - Promote the effective use of Internal Audit within the assurance framework.
- 1.3.2 The Audit Committee received a number of reports to oversee the role of the Internal Audit function.
- 1.3.3 The Annual Internal Audit and Fraud Plan for 2019/20 was presented to the Audit Committee in April 2019 and they were able to consider the content prior to recommending approval.
- 1.3.4 In July 2019 the Audit Committee was presented with a report from the Chief Audit Executive as a summary of supporting evidence to the AGS. This report gave the Chief Audit Executive’s opinion that the Council had maintained an adequate and effective internal control environment.
- 1.3.5 The Audit Committee is required to consider the effectiveness of Internal Audit on an annual basis. This review was based upon evidence produced and the view of Management Team. A report was submitted to the Audit Committee in July 2019 which reported that Management Team opinion on the effectiveness of Internal

Audit was "Satisfactory". Members considered the findings of this review and endorsed the opinion that the effectiveness of Internal Audit was "Satisfactory".

- 1.3.6 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. A self-assessment was undertaken in 2019 which identified some areas for improvement. These were included in an action plan which was reported to Audit Committee in January 2020. An update on this action plan will be reported to Audit Committee in July 2020 alongside an assessment of compliance.
- 1.3.7 The Audit Committee was given a report in July 2019 on the work completed by Internal Audit and Fraud in the previous year that detailed how resources had been used. The report also covered a number of performance measures to assist the Audit Committee to assess the performance and effectiveness of the function.
- 1.3.8 The Internal Audit Charter is a key document in the delivery of Internal Audit setting out the purpose, authority and responsibilities of the service which was subject to review at the January 2019 meeting of the Audit Committee.
- 1.3.9 The Internal Audit Charter gives the Audit and Assurance Manager (as Chief Audit Executive) the right to raise issues directly with the Chair of the Audit Committee if considered necessary. This would only occur in circumstances where the Audit and Assurance Manager considered that the Chair of the Audit Committee needed to be made aware of significant assurance concerns. There have not been any instances where this has been considered necessary.
- 1.3.10 Throughout the year the Audit Committee received a number of reports updating Members of the progress of work carried out by Internal Audit and Fraud against the Annual Plan. These reports informed the Audit Committee of Internal Audit's opinion on the audits undertaken and gave additional information where a limited or no assurance was given.

1.4 Audit Committee Responsibilities

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

1.5 Risk Management Arrangements and Control Environment

- 1.5.1 The Audit Committee is required to consider the effectiveness of the council's risk management arrangements and the control environment. The Members are required to review the risk profile for the Council and seek assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- 1.5.2 The risk profile for the Council is undertaken as part of the audit needs assessment to identify those areas where Internal Audit is most effective.

- 1.5.3 The Risk Management Strategy is the framework for setting out the responsibilities for ensuring that a sound risk management process is in place. The strategy is reviewed by the Audit Committee on an annual basis and this review took place in January 2020.
- 1.5.4 The Risk Management Strategy requires Management Team to escalate any relevant risks to the Strategic Risk Register (SRR) for reporting to this Committee with changes highlighted. The 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 is reported to each meeting of the Committee.
- 1.5.5 The strategy states that Audit Committee Members will receive risk management training during their term of office. This training was delivered by Zurich Municipal (the Council's Insurers) in October 2019 following the May Local Elections.
- 1.5.6 The Insurance Officer maintains a record of all claims made against the Council which are reported to the Audit Committee half-yearly. These reports also inform Members of the steps being taken to minimise similar claims being made.
- 1.5.7 All reports to Council require a risk assessment of the issues involved to be reported as part of the consideration of the report.

1.6 Assurance Framework and Planning

- 1.6.1 The assurance framework is the overall process that provides evidence to support the AGS. The Audit Committee has a responsibility to understand what assurance is available to support the AGS.
- 1.6.2 The AGS was presented to Members at the meeting of July 2019. The supporting evidence to the AGS consisted of a document setting out the areas of the assurance framework to be considered with an explanation of evidence that supported the conclusions of the AGS.

1.7 Value for Money and Best Value

- 1.7.1 One specific area for the Audit Committee should be consideration of the external auditor opinion on value for money as set out in the codes of audit practice. In addition, the Audit Committee should consider what other assurances are available in relation to identified value for money risks and highlight areas for improvement. (CIPFA Audit Committee Guidance).
- 1.7.2 The External Auditor, Grant Thornton, produced their Annual Audit Letter relating to the year ended 31 March 2019 which was presented to the Audit Committee at their meeting of October 2019.
- 1.7.3 The report concluded that the external auditor was satisfied that in all significant respects the Council put in place proper arrangements to secure economy,

efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

- 1.7.4 As part of the embedded system for achieving value for money all Council reports contain a section where value for money is considered.

1.8 Countering Fraud, Bribery and Corruption

- 1.8.1 The Audit Committee role is defined as having an oversight of the strategy to counter fraud and to assess whether or not it meets recommended practice and standards. The outcome and action plan following the independent review of the fraud team was reported to the January 2020 Committee and updates on progress against the plan will be provided to subsequent meetings.

- 1.8.2 The Audit Committee is responsible for the review of the policies relating to countering fraud, bribery and corruption and anti-money laundering. In January 2020 it reviewed the Whistleblowing Policy and recommended that it was endorsed by the General Purposes Committee. In the same meeting the Anti-Fraud, Bribery and Corruption Policy and the merger of the specific anti-fraud policies in respect of housing benefits and council tax discounts and exemptions into the Policy was approved, together with the Anti-Money Laundering Policy.

- 1.8.3 The Audit Committee also receives updates on the progress of the National Fraud Initiative results and other work undertaken by the Fraud Team as part of the audit and fraud updates to every meeting. The work of the Fraud Team reported to the Committee in 2019/20 include amounts to be repaid to the Council due to fraud and error of £93,840.57 with an increased annual liability of £96,579.36; and 29 civil penalties issued to the sum of £2,030.

- 1.8.4 The Whistleblowing Policy requires the Audit Committee to be informed of the outcome of any investigations arising from concerns raised under it. No such matters have been drawn to the attention of the Committee in the period covered by the report.

1.9 External Audit

- 1.9.1 The Audit Committee should receive all reports from the external auditor and monitor action to be taken that arises from them.

- 1.9.2 The Audit Committee has received copies of all external auditor reports during the year and has been able to consider the content. The external auditor provides a representative to all Audit Committee meetings where the Audit Committee is able to raise questions regarding the content of reports.

1.10 Financial Reporting

- 1.10.1 Local Authority accounts are produced in line with guidance set out by CIPFA. The role of the Audit Committee with regard to these financial statements is not

one of detailed knowledge of this guidance but is more aligned to focus on financial reporting and financial governance rather than on the wider issues of spending and performance.

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

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

1.10.3 The Audit Committee received the Statement of Accounts 2018/19 at the meeting of July 2019. This report gave the Audit Committee assurance that the accounts were presented in compliance with required legislation and best practice guidance. Following consideration of the accounts and a detailed report giving evidence of how compliance is achieved the Audit Committee agreed to endorse the Statement of Accounts and supporting documents. This was accompanied by the Audit Findings Report from the external auditor on the outcome of the audit of the accounts, and subsequently they issued an unqualified audit opinion on the financial statements and value for money conclusion.

1.11 Partnership Governance

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

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

1.12 Treasury Management

- 1.12.1 Although it is not included as a core objective of the Audit Committee, the CIPFA Guidance recognises that Treasury Management scrutiny may be a function of some Audit Committees to meet the requirements of the CIPFA Treasury Management Code of Practice.
- 1.12.2 The Committee receive regular updates on Treasury Management including the treasury management mid-year review and annual report. At the meeting of January 2020 Members of the Audit Committee reviewed the Treasury Management Strategy Statement and Investment Strategy for 2020/21 and recommended it be adopted by the Cabinet and full Council.

1.13 Training

- 1.13.1 The Chair and Members of the Audit Committee receive in-house and or external training at varying intervals to assist with the understanding of the issues considered.
- 1.13.2 Training on the Statement of Accounts, Risk Management and Treasury Management was provided following the May 2019 Local Elections. Further training needs identified are addressed as and when required.

1.14 Conclusion

- 1.14.1 The evidence in the preceding paragraphs explains how the Audit Committee has overseen the core functions of an Audit Committee as defined in the CIPFA Guidance.
- 1.14.2 As stated at 1.1.2 the CIPFA Guidance identifies that the purpose of the Audit Committee 'is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.' This report acts to provide that independent assurance to Council.

1.15 Legal Implications

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

1.16 Financial and Value for Money Considerations

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

1.17 Risk Assessment

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

1.18 Equality Impact Assessment

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

1.19 Recommendations

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

Background papers:

contact: Vivian Branson

Nil

Councillor Vivian Branson
Chair of the Audit Committee

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Chief Executive and Director of Central Services

Part 1- Public

Matters for Recommendation to Council

1 LOCAL CODE OF CORPORATE GOVERNANCE

This report informs Members of the outcome of the annual review of the Local Code of Corporate Governance.

1.1 Introduction

- 1.1.1 In April 2017 the Local Code of Corporate Governance was heavily amended, and the Council's Constitution was comprehensively re-written, and adopted by Full Council on 31 July 2018. The Local Code was revisited at that time to ensure no further amendments were necessary as a result of adoption of the new Constitution.
- 1.1.2 The coming into force of the General Data Protection Regulation (GDPR) in May 2018, and the Data Protection Act 2018 subsequently, required the adoption of new procedures and some minor updates to the Local Code in 2019.
- 1.1.3 The adoption by the Council of a Corporate Enforcement Policy (to guide the Council's enforcement activities in all of its regulatory functions) in 2019, and updated Corporate Strategy for 2020-2023 requires some minor updates to the Local Code to reflect these documents.
- 1.1.4 Audit Committee may also be aware of the central government review of Ethical Standards in Local Government in January 2019. Whilst the report has made a number of recommendations, these will require implementation through primary legislation before they take effect, if Government decides to adopt any or all of them. At the time of writing, no action had been taken by central government in this regard and therefore no changes are proposed on these matters.
- 1.1.5 The Council is due to adopt a Climate Change Strategy in 2020 and this may result in the need for further changes to the Local Code for 2021/22.

1.2 Legal Implications

- 1.2.1 Whilst there is no legal requirement for Council's to develop a Local Code of Corporate Governance, such a Code provides a public document that

demonstrates how the Council ensures it operates in a proper way and in accordance with the law.

1.3 Financial and Value for Money Considerations

1.3.1 There are no financial and value for money considerations arising from the Code.

1.4 Risk Assessment

1.4.1 Adoption of a Local Code of Corporate Governance is seen as good practice in that it demonstrates how the Council ensures it operates in a proper way and in accordance with the law and as such is subject to annual review to ensure it remains fit for purpose. Not to do so may attract unwelcome criticism.

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 **approve** the amendments to the Local Code of Corporate Governance set out at **Annex 1** and **commend** it to Council for adoption.

Background papers:

contact: Kevin Toogood

CIPFA/SOLACE – “Delivering Good Governance in
Local Government Framework 2016”

Julie Beilby
Chief Executive

Adrian Stanfield
Director of Central Services

Local Code of Corporate Governance	Supporting Evidence
1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.	
1.1 Behaving with Integrity	
<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"> • An Equalities Policy • a protocol for member/ officer relations • A Declaration of Interest Register for Members and for staff • A Register of Gifts and Hospitality offered to Members and staff • Financial Procedure Rules • Contracts Procedure Rules • A publicised complaints procedure • A fraud-aware culture, and an anti-fraud and corruption policy which is reviewed and updated annually.
<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>The Seven Principles of Public Life are embedded within the Constitution and form part of the Members' Code of Conduct.</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 & Scrutiny committee.</p> <p>The Council has a Corporate Strategy for 2020-2023 which sets out an overarching vision for the Council.</p>

1.2 Demonstrating Strong Commitment to Ethical Values	
Seeking to establish, monitor and maintain the organisation's ethical standards and performance	<p>The Council has a number of policies and Codes which officers and members are expected to adhere to:</p> <ul style="list-style-type: none"> • A Code of Conduct for Members and Officers • An Equalities Policy • A Declaration of Interest Register for Members and for staff • A Register of Gifts and Hospitality offered to Members and staff • Financial Procedure Rules • Contracts Procedure Rules • an anti-fraud and corruption policy • a Standards Committee to promote and maintain high standards of conduct by Members
Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	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.
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 publicized through:</p> <ul style="list-style-type: none"> • The Council's performance reporting arrangements • Procedures for recruitment and training • Decision making practices • Data transparency arrangements, such as • publication of decisions and committee meeting minutes • Partnership governance arrangements
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 organisation	The Council's Contracts Procedure Rules require standard terms to be included in all contracts, including provisions relating to bribery, equalities and fraud.

1.3 Respecting the Rule of Law	
<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"> • a Code of Conduct for Members and Officers • A Declaration of Interest Register for Members and for staff • A Register of Gifts and Hospitality offered to Members and staff • Financial Procedure Rules • Contracts Procedure Rules • an anti-fraud and corruption policy
<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 departments 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 has also adopted 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 and corruption strategy 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 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>

2. Ensuring openness and comprehensive stakeholder engagement	
2.1 Openness	
Ensuring an open culture through demonstrating, documenting and communicating the organization's commitment to openness	<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>
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>The Council has an adopted and published Corporate Strategy for 2020-2023 which sets out the Council's vision for a 3-year period.</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"> • The Council • The Cabinet (including the Executive Leader and delegated decision-making to the Cabinet Portfolio Holders), • Other Council committees; and • powers delegated to officers and the limits of such delegation <p>The Overview and Scrutiny Committee is responsible for reviewing and scrutinizing 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</p>

	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.
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.	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.
Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action.	The Council carries out consultation where this is a legal requirement.
2.2. Engaging comprehensively with institutional stakeholders	
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.	The Council's Corporate Strategy 2020/23 outlines the means by which local stakeholders (including institutional stakeholders) will be engaged and how constructive, challenging relationships will be built. The Council has put in place Committees / Boards with cross-party representation to ensure effective and robust discussion of issues. The Council also has an Overview and Scrutiny Committee to scrutinise decisions made by Cabinet.
Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	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.
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	The Council is in the process of developing a partnership policy to guide these principles and ensure that any partnership adheres to these values.

2.3 Engaging with individual citizens and services users effectively.	
<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 & 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 carries 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, and where legally required, are advertised in a relevant newspaper.</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"> • The Council engages with the Parishes and unparished areas through the Parish Partnership Panel and Tonbridge Forum • The Council promotes the TM Youth Forum that represents the views of young people living in Tonbridge and Malling • The Council supports the Tonbridge & Malling Seniors' Forum (TAMS) which promotes and the needs of the older resident. • The Council engages with other key stakeholders through a number of partnerships that the Council has embarked upon.

	<ul style="list-style-type: none"> • The Council actively uses complaints received to learn and improve services, whether through the internal complaints system or via the Ombudsman. • The Council operates a petition scheme whereby matters of significant local interest can be raised for discussion at full Council.
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.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.	
3.1 Defining Outcomes	
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 2020-23. 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 scrutinizing 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 which may have a disproportionate impact on a certain section of society are subject to an Equalities Impact Assessment.</p>
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

	<p>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.</p>
<p>Identifying and managing risks to the achievement of outcomes</p>	<p>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.</p> <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 scrutinizing corporate risk.</p>
<p>Managing service users' expectations effectively with regard to determining priorities and making the best use of the available resources</p>	<p>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.</p>
<p>3.2. Sustainable economic, social and environmental benefits.</p>	
<p>Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision</p>	<p>Value for money considerations are set out in all committee reports, and the Council's external auditors have consistently found that the Council does give value for money. 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.</p> <p>Where relevant, policies are subject to Strategic Environmental Impact Assessment prior to adoption.</p> <p>The Council intends to adopt a Climate Change Strategy in 2020 which will also set out the Council's aims for achieving carbon neutrality.</p>
<p>Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-</p>	<p>The Corporate Strategy, together with the Medium Term Financial Strategy and supported by the Savings and Transformation Strategy set out the long term high level objectives of the Council.</p>

term factors such as the political cycle or financial constraints.	
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	Council, Committee and advisory board 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.
4. Determining the interventions necessary to optimize the achievement of the intended outcomes	
4.1. Determining interventions.	
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.	<p>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.</p> <p>Where relevant, alternative options are presented within committee reports, with an assessment of the benefits and disadvantages of those options.</p> <p>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.</p>
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 available including people, skills, land and assets and bearing in mind future impacts	<p>Where appropriate, the Council carries out consultation with stakeholders, which is taken into account in the decision-making process. Consultations are published on the Council's website, or where statutory rules apply to such consultation those rules are followed.</p> <p>In addition, the Council uses its complaints procedure to understand where services can be improved.</p>
4.2 Planning Interventions	
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 Plan) are reviewed on a regular basis.</p> <p>Feedback from consultations is taken into account in the decision making process and</p>

	<p>reported to the relevant committee, cabinet or Council meeting.</p> <p>The Savings & Transformation Strategy (STS) has been prepared in order to support the achievement of the Council's Medium-Term Financial Strategy and direct resources in line with the Council's Corporate Strategy. The STS recognizes 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, medium term financial strategy 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 Contract 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	<p>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.</p> <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</p>

	Members via the Finance, Innovation and Property Advisory Board as part of the cycle of Councils meetings programme.
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>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.</p> <p>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>
4.3 Optimising achievement of intended outcomes	
Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	The medium-term financial strategy is aligned with the Corporate Strategy. Service priorities are aligned to the Corporate Strategy.
Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	<p>The budget monitoring process considers both revenue and capital budgets.</p> <p>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>5. Developing the entity’s capacity, including the capability of its leadership and the individuals within it</p>	
<p>5.1. Developing the entity’s capacity</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"> • 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 • Internal and external audit • Publication of annual budget and accounts information
<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.</p> <p>The Council actively engages with its staff through:</p> <ul style="list-style-type: none"> • Team meetings • Regular performance management meetings • The Joint Employee Consultative Committee <p>The HR Strategy incorporates the Council’s Workforce Development Plan which is reviewed and updated annually.</p>

5.2. Developing the capability of the entity's leadership and other individuals.	
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 organization.</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"> • Induction training for all new members • Service-specific training, e.g. Community Safety • Committee-specific training, e.g. Audit Committee, Planning Committee
Ensuring that there are structures in place to encourage public participation	Consultations are published on the Council's websites. 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 recognizing that the Council's staff are its most valuable asset. The HR Strategy also recognizes the same. The Council has a Joint Employee Consultative Committee which enables employees to raise matters of concern, including health and wellbeing.</p>
<p>6. Managing risks and performance through robust internal control and strong public financial management</p>	
<p>6.1. Managing risk</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"> • Risk Management Strategy • Strategic Risk Register • Service Risk Registers • Audit Committee role in scrutinising corporate risk • Consideration of risk in all Committee reports • Annual Governance Statement <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>

Ensuring that responsibilities for managing individual risks are clearly allocated.	The service risk registers clearly identify responsibilities for managing individual risks.
6.2. Managing performance.	
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	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.
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	The overview and scrutiny committee is responsible for reviewing and scrutinizing 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.
Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement	The Council has in place committees & boards with cross-party representation to ensure effective and robust discussion of issues. Relevant boards, committees and the executive are provided with information reports on a regular basis to provide progress reports on service delivery and outcomes.
Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)	<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 scheme's 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>

6.3 Robust internal control	
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 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"> • Risk management strategy • Strategic risk register • Service risk registers
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 <i>CIPFA's Audit Committees: Practical Guidance for Local Authorities</i> 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 Officers and Members in the identification and minimisation of risk. The Risk Register is a standing item at every Audit Committee meeting
6.4 Managing Data	
Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	<p>The Council maintains a number of local policies which support and embed information processes. These include</p> <ul style="list-style-type: none"> • Data Protection policy • Information Security policy • Records Management policy • Use of removable media policy • Remote access policy • Social media policy • Information Asset register • Information Governance Policy <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 & 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 & 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>6.5 Strong public financial management</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>
<p>7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability</p>	
<p>7.1 Implementing good practice in transparency</p>	
<p>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>	<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</p>

	<p>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 from publication for reasons set out in the Local Government Act 1972) 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 as discussed above) are made public and can be accessed through the Council's website.
7.2 Implementing good practice in reporting	
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 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 jointly managed or 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.
7.3 Assurance and effective accountability	
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

27 July 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2019/20

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 2019/20 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 In the UK 2020 started with optimistic business surveys pointing to an upswing in economic **growth** following the general election in December which settled the Brexit issue. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2% (-1.7% y/y). However, the main fall in growth did not occur until April when it came in at -24.5% y/y after whole sections of the economy were closed down to limit the spread of the virus. Going forward there is uncertainty over the extent of the damage that will have been done to businesses, how consumer confidence and behaviour has been impacted, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality.

1.2.2 The Monetary Policy Committee (MPC) left **Bank Rate** unchanged at 0.75% in January 2020. The onset of the coronavirus epidemic in March forced the MPC to make two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE - purchase of gilts by the Bank of England) of £200bn to maintain liquidity in financial markets. In June, the MPC added a further £100bn of QE purchases of gilts raising the total

stock of QE purchases to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. This has prompted some forecaster to suggest Bank Rate will remain low for a number of years.

- 1.2.3 To avoid people losing their **jobs** during the lockdown period the Government introduced various schemes to subsidise both employed and self-employed jobs. Government also put in place a raft of other measures to help businesses access loans from their banks. Despite these measure the Bank of England expects the unemployment rate to increase from 4% in January to 8% over the coming months.
- 1.2.4 The Government measures to support jobs and businesses will result in a substantial increase in the annual budget deficit for the current year, from about 2% to nearly 17% of national income. The ratio of **debt** to GDP is also expected to increase from 80% to around 105% of GDP. In the March Budget Government also announced increases in infrastructure spending to aid economic recovery. Economic statistics during June pointed to a rapid recovery. However, it may be a considerable time before activity recovers to its previous level.
- 1.2.5 The annual CPI **inflation** rate dropped to 0.5% in May from 1.8% in January and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy is expected to succumb to recession. The early months of 2020 saw a sharp fall in oil prices. Other UK domestic prices will also be under downward pressure; wage inflation already on a downward path over the last six months is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would be below their 2% target until 2022. This was in the context of their forecast that GDP would recover during 2021 and rise by 3% in 2022.

1.3 Interest Rate Forecast

- 1.3.1 Following the financial crisis in 2008, Bank Rate was cut to an emergency level of 0.5% where it remained for over seven years. The outcome of the 2016 EU referendum prompted Bank Rate to be cut to 0.25% in August 2016. Since then Bank Rate has risen in 0.25% steps, peaking at 0.75% from August 2018. Link's forecast used in the 2020/21 investment strategy assumed economic conditions would continue to improve requiring a gradual rise in Bank Rate over the next three years.

Link - Nov 2019	June-20 %	Sep-20 %	Dec-20 %	Mar-21 %	Jun-21 %	Sep-21 %	Dec-21 %	Mar-22 %	Jun-22 %	Sep-22 %	Dec-22 %	Mar-23 %
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 mth LIBID	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 mth LIBID	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 mth LIBID	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
25yr PWLB	3.40	3.40	3.50	3.60	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

1.3.2 The world has changed since the 2020/21 strategy was published in February 2020. Interest rate forecasting is now much more problematic and tentative than it is in normal circumstances. The scale of both Government and Central Bank intervention in recent months is historic in magnitude. Most governments have implemented lockdowns to limit the spread of Covid-19. Whilst lockdown measures are now being relaxed the full extent of the economic impacts is still uncertain.

1.3.3 Link updated their forecast in July 2020 as follows:

Link – July 2020	June-20 %	Sep-20 %	Dec-20 %	Mar-21 %	Jun-21 %	Sep-21 %	Dec-21 %	Mar-22 %	Jun-22 %	Sep-22 %	Dec-22 %	Mar-23 %
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 mth LIBID	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-	-
6 mth LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
12 mth LIBID	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	-	-	-	-
25yr PWLB	2.50	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70

1.3.4 The forecast is based on the assumption that Covid-19 will be defeated in the UK over the next six to twelve months through localised lockdowns and or the use of a vaccine. In addition:

- On-going market volatility may necessitate further Government and Central Bank intervention.
- MPC will aim for very loose monetary policy, primarily through the use of quantitative easing, in order to maintain low yields and funding costs to help support businesses and to maintain appropriate levels of liquidity.
- The result is expected to be a very flat yield curve for at least a year and only marginal increases over the following year.
- Bank Rate will stay at 0.1% for the next two years.
- Inflation is likely to be well below 2% and wage increases will be limited in the face of economic uncertainty coupled with a steady rise in unemployment.

- The economy is likely to take a considerable time to recover lost momentum.
- There will be a recession in world growth in 2020; growth is unlikely to recover quickly.

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. Thus far in 2020/21 cash flow surpluses have averaged £29m.
- 1.4.4 The Authority also has £13m 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.
- 1.4.5 Cash flow and core cash balances also include some £10m to meet business rate appeals of which £3m are expected to be resolved in 2020/21 and the remainder in future years.
- 1.4.6 Long term investment at the end of June 2020 comprised £5m in property fund investments.
- 1.4.7 A full list of investments held on 30 June 2020 is provided at **[Annex 1]** and a copy of our lending list of 29 June 2020 is provided at **[Annex 2]**. The table below provides a summary of funds invested and interest / dividends earned at the end of June.

	Funds invested on 30 June 2020	Weighted average duration to maturity	Weighted average rate of return	Interest / dividends earned 1 April to 30 June 2020	Annualised weighted rate of return	LIBID benchmark (average from 1 April 2020)
	£m	Days	%	£		%
Cash flow	28.0	4	0.22	21,200	0.29	-0.05 (7 Day)
Core cash	13.0	153	0.55	31,200	0.78	0.26 (3 Mth)
Sub-total	41.0	51	0.33	52,400	0.46	0.06 (Ave)
Long term	5.0		3.45	35,800	2.87	
Total	46.0		0.67	88,200	0.70	

- 1.4.8 **Cash flow and Core cash Investments.** Whilst the authority outperformed the LIBID benchmark by 40 basis points, Interest earned of £52,400 to the end of June is £25,950 below the original estimate for the same period. The fall in income is due to the impact the emergency cuts in Bank Rate in March 2020 have had on investment opportunities. During March 2020 Bank Rate fell from 0.75% to 0.1%.
- 1.4.9 If bank offers remain at their current ultra-low levels throughout 2020/21 cash flow and core cash investment is likely to underperform against budget for the year as a whole by some £182,000. Opportunities to mitigate some of that impact will be explored with the Council's Treasury Advisor and reported to Audit Committee in October 2020. Impacts in 2021/22 and beyond will be addressed through updates to the Council's Medium Term Financial Strategy and in next financial years Annual Investment Strategy (due to be reported to Audit Committee in January 2021).
- 1.4.10 Members will be aware from the media in general and committee reports (Cabinet, FIPAB amongst others) of the pressures that the pandemic has and is having on the Council's finances. To ensure sufficient liquidity to meet payment obligations all core fund maturities arising in February, March and April were transferred to cash flow balances rather than being reinvested in new fixed term deposits. Following that action no payment issues arose and none are expected to during the remainder the 2020 calendar year. There remains a question mark over the proportion of council tax and business rates which will be collected in 2020/21. The lion's share of that collection is being paid to government and precept authorities spread over twelve monthly instalments. The current payment schedules predate Covid-19.

- 1.4.11 The recession is born out of a health crisis not a financial crisis. Whilst the UK sovereign credit rating has been downgraded from AA to AA- by Fitch, individual UK bank long-term and short-term credit ratings, for those banks on the Council's lending list, have not thus far been downgraded by the credit rating agencies. Whilst there have been a number of changes to rating watch and outlooks these have not resulted in a reduction in the investment duration assessment provided by Link (i.e. banks considered good for 12 month investment last January carry the same assessment today). Credit default swop data (CDS – a measure of risk) remains substantially below the levels noted during the sovereign debt crisis of 2012.
- 1.4.12 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 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. As at 31 March 2020 the Council's return at 0.69% (purple diamond) compared well with the local authority average of 0.71%. Based on the Council's exposure to credit / duration risk that return was in-line with Link's predicted return (between the upper and lower boundary indicated by the diagonal lines). The Council's risk exposure was also consistent with the local authority average.
- 1.4.13 **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.
- 1.4.14 £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.
- 1.4.15 During the period 1 April 2020 to 30 June 2020 the £5m investment in property funds generated dividends (income) of £35,800 which represents an annualised return of 2.87% (3.48% in 2019/20). Covid-19 has resulted in a proportion of rents due to be collected in June being deferred. These deferred rents are expected to be collected at some point during the current financial year. However, income from property funds is expected to underperform against budget by some £55,000 for the financial year as a whole. The majority of this figure relates to anticipated delays in the disposal of River Walk offices rather than being attributed to Covid-19.
- 1.4.16 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.

1.4.17 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 and throughout 2019/20. More recently, the Covid-19 impact on the economy is expected to see commercial property values continue to decline in 2020/21 before commencing a recovery in 2021/22.

1.4.18 Although each property is unique, its value is informed by the sale of similar properties. During recession property transaction volumes diminish making valuation less certain. Each of our property fund managers have attributed “uncertainty” to their most recent monthly valuations. At the same time, and by regulation, when valuation is uncertain fund managers are required to suspend the purchase and redemption units by investors. The suspension is intended to protect the interests of purchasers, sellers and continuing investors such as ourselves and is welcomed.

1.4.19 Current qualified sale values vs initial purchase price are as follows:

Property fund (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 2020 c £	30 June 20 sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	901,200	(98,800)
Lothbury (Primary, July 2017)	1,000,000	927,700	916,900	(83,100)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	964,400	(35,600)
LAPF (Primary, June 2018)	1,000,000	922,200	864,050	(135,950)
Lothbury (Secondary, July 2018)	1,000,000	973,000	899,200	(100,800)
Total change in principal	5,000,000	4,684,100	4,545,750	(454,250)
			Total dividends received	448,450
			Net loss since inception	5,800

1.4.20 Since inception, the Council has received dividends from its property fund investments totalling £448,450. Taking the current £454,250 deficit on sale values into account the net loss to the Council is £5,800 (was a net gain of £173,800 to the end of December 2019). Fund values have fallen £258,300 in the six months

to June 2020 due to the Covid-19 impact on the economy and commercial property values. The deficit in sales value is expected to be recouped overtime as the economy recovers.

- 1.4.21 Members are reminded that higher yielding investments (e.g. property, equities) have the potential to fluctuate in value, both up and down. It is this feature which makes them unsuitable for short term investment where certainty over value at maturity is a key criteria. The Council's property fund investments are not required to meet day to day spending commitments and will only be realised should a higher yielding opportunity be identified.

1.5 Compliance with the Annual Investment Strategy

- 1.5.1 Throughout April to June 2020 all of the requirements contained in the 2020/21 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 2020.

- 1.5.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy. The 2020/21 Prudential and Treasury Indicators will be included for review as part of the treasury management report to the October 2020 meeting of Audit Committee.

1.6 2019/20 Treasury Management Outturn

- 1.6.1 A detailed report covering treasury management activity for the last financial year was submitted to Cabinet on 3 June 2020 as an annex to the Revenue and Capital Outturn report for 2019/20. That annex is replicated in full and provided at **[Annex 4]** 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 4 is as follows:

	2019/20 Average balance £m	Return %	2019/20 Interest/ dividends earned £	2019/20 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	19.9	0.76	150,734	125,000	25,734
Core cash	25.1	1.10	275,447	275,000	447
Long term investment	5.0	3.48	173,977	175,000	(1,023)
Total	50.0	1.20	600,158	452,000	25,158

- 1.6.3 The combined performance of the Authority's investments exceeded the revised estimate by £25,158 and by £117,158 when compared to the 2019/20 original estimate.
- 1.6.4 Income and expenditure attributed to the Treasury Management function for 2019/20 is provided at **[Annex 5]**. This shows the aggregate staff resource applied to treasury management is less than one full time equivalent and that income exceeds costs by a significant margin. Income in future years forms part of the Council's medium term financial strategy and is subject to changes in the level of reserves and changes in Bank Rate. Expenditure in future years is expected to rise in-line with inflation.

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 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 (BoE) returned the Bank Rate to 0.5%. Bank rate was increased to 0.75% in August 2018. In response to the anticipated impact of Covid-19 on the economy, BoE cut Bank Rate to 0.1% in March 2020. Link's current forecast (July 2020) anticipates Bank Rate remaining at 0.1% for at least the next two years.
- 1.8.2 Following the March 2020 cuts in Bank Rate investment income at the end of June 2020 (month three of the financial year) from cash flow surpluses and core cash investments is £25,950 below budget for the same period. Income from property funds at the end of June is below budget by £9,200. Investment income for the year as a whole is expected to underperform against budget by some £237,000.
- 1.8.3 Investment income for the 2019/20 financial year as a whole exceeded the revised estimate by £25,158 and the original estimate by £117,158.
- 1.8.4 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.
- 1.8.5 Whilst the annual income stream from a property fund exhibits stability (circa 4% per annum net of management fees) capital values rise and fall with the cyclical nature of economic activity. During a downturn in the economy capital values may fall significantly. 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.

- 1.8.6 Buying and selling property involves significant costs making property unsuitable for short term investment. Buying and selling costs are reflected in the entry fees (circa 6%) and exit fees (circa 2%) a property fund will charge unit holders. These fees are expected to be recouped overtime through capital appreciation.
- 1.8.7 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to twelve 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 2020.
- 2) Note the 2019/20 outturn position.

Background papers:

contact: Mike Withey

Link interest rate forecast (July 2020)

Link benchmarking data (March 2020)

Sharon Shelton

Director of Finance and Transformation

Tonbridge and Malling Borough Council - Investment summary 30 June 2020

Counterparty / type of investment	Sovereign	Fitch long term	Fitch short term	Link suggested post CDS duration limit	Investment						Cash Flow surpluses £	Core Cash balances £	Long term investment balances £
					Start date	End date	Duration at start	Amount invested £	Return %	Proportion of total %			
Banks, Building Societies & Other Financials													
Barclays Bank :	UK	A+	F1	6 months	20/06/2019	TBD	95 Days	4,000,000	0.30	8.70%			
95 day notice account					23/07/2019	TBD	95 Days	1,000,000	0.30				1,000,000
95 day notice account								3,000,000			3,000,000		
Goldman Sachs International Bank :	UK	A+	F1	6 months	15/10/2019	15/07/2020	9 months	2,000,000	0.99	4.35%		2,000,000	
Fixed term deposit								2,000,000					
HSBC Bank :	UK	AA-	F1+	1 year	02/12/2019	TBD	31 Days	3,000,000	0.25	6.53%	3,000,000		
31 day notice account								3,000,000					
Lloyds Bank :	UK	A+	F1	1 year	14/11/2019	13/11/2020	1 year	1,000,000	1.10	2.18%		1,000,000	
Fixed term deposit								1,000,000					
National Westminster Bank :	UK	A+	F1	1 year	30/06/2020	01/07/2020	Overnight	502,000	0.01	1.09%	502,000		
Deposit account								502,000					
Santander UK Bank :	UK	A+	F1	6 months	05/06/2020	05/03/2021	9 Months	4,000,000	0.48	8.70%		2,000,000	
Fixed term deposit								2,000,000	0.48				
Fixed term deposit					22/05/2020	22/02/2021	9 Months	2,000,000	0.48		2,000,000		
Standard Chartered :	UK	A+	F1	6 months	21/05/2020	22/02/2021	9 Months	2,000,000	0.48	4.35%		2,000,000	
Fixed term deposit								2,000,000					
Money Market Funds													
Blackrock MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	30/06/2020	01/07/2020	Overnight	200,000	0.19	0.44%	200,000		
BNP Paribas MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	30/06/2020	01/07/2020	Overnight	250,000	0.12	0.54%	250,000		
DWS Deutsche MMF - shares/units held	N/A	AAA	mmf	5 years	30/06/2020	01/07/2020	Overnight	8,000,000	0.23	17.41%	8,000,000		
Federated MMF - shares/units held	N/A	AAA	mmf	5 years	30/06/2020	01/07/2020	Overnight	8,000,000	0.24	17.41%	8,000,000		
Morgan Stanley MMF - shares/units held	N/A	AAA	mmf	5 years	30/06/2020	01/07/2020	Overnight	8,000,000	0.20	17.41%	8,000,000		
Property Funds													
Hermes Property Unit Trust :	N/A	N/A	N/A	N/A	29/09/2017	N/A	N/A	1,000,000	3.29	2.18%		1,000,000	
Property fund units								1,000,000					
Local Authorities' Property Fund :	N/A	N/A	N/A	N/A	29/06/2017	N/A	N/A	2,000,000	4.22	4.35%		1,000,000	
Property fund units								1,000,000	3.96				
Property fund units					30/05/2018	N/A	N/A	1,000,000	3.96		1,000,000		
Lothbury Property Trust :	N/A	N/A	N/A	N/A	06/07/2017	N/A	N/A	2,000,000	3.02	4.35%		1,000,000	
Property fund units								1,000,000	2.91				
Property fund units					02/07/2018	N/A	N/A	1,000,000	2.91		1,000,000		
Total invested								45,952,000		100.00%	27,952,000	13,000,000	5,000,000

Number of investments	19	Average investment value £			2,419,000
Number of counter parties	15	Average counter party investment £			3,063,000
Group exposures:		Core £	Cash £	Combined £	%
Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)		-	502,000	502,000	1.09
Bank of Scotland + Lloyds (MAX 20%)		1,000,000	-	1,000,000	2.18
Property Funds Total				£	%
				5,000,000	10.88

Total non-specified investments should be less than 60% of Investment balances 10.88%

Notes:
Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update July 2020.
End date for notice accounts to be determined (TBD)

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Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 26/06/20 Minimum investment criteria is Link's green duration band (100 days). Entry point broadly equates to Fitch A-, F1 unless UK nationalised.								
Counterparty	Sovereign	Sovereign rating [1]	Fitch long term	Fitch short term	UK classification	Exposure limit	Link duration based on [2]	
							Credit ratings	Post CDS
UK Banks, Building Societies and other Financial Institutions :								
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 International 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
Non-UK Banks :								
Bank of Montreal	Canada	AA+	AA-	F1+	n/a	£7m	1 year	1 year
Toronto Dominion Bank	Canada	AA+	AA-	F1+	n/a	£7m	1 year	1 year
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
[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 per sovereign.								
[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 suggestion. 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	Link credit worthiness
Blackrock Institutional Cash Series - Sterling Liquidity	AAA	-	AAA	£8m	5 years
BNP Paribas InstiCash - GBP	-	-	AAA	£8m	5 years
DWS Deutsche Global Liquidity - Deutsche Managed Sterling	AAA	AAA	AAA	£8m	5 years
Federated Cash Management - Short Term Sterling Prime	-	AAA	AAA	£8m	5 years
Insight - Sterling Liquidity (Group limit IL & ILP of £7m)	-	AAA	AAA	£8m	5 years
Morgan Stanley Liquidity - Sterling	AAA	AAA	AAA	£8m	5 years

Enhanced Cash Funds (Minimum investment criteria AAA) :					
Fund Name	Moody	Fitch	S&P	Exposure Limit	Link credit worthiness
Insight - Sterling Liquidity Plus (Group limit IL & ILP £7m)	-	AAA	AA+	£3.5m	5 years

Approved by Director of Finance and Transformation 29 June 2020	Canadian sovereign rating downgraded from AAA to AA+
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Tonbridge & Malling Borough Council

Population Returns against Model Returns March 2020



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge & Malling Borough Council	0.69%	0.74%	-0.05%	0.64%	0.83%	Inline

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Tonbridge and Malling Borough Council

Treasury Management Annual Report 2019/20

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 2019/20. 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 2019/20 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 2019/20 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 Treasury Position at 31 March 2020

1.2.1 At the beginning and the end of 2019/20 the Council's debt and investment position was as follows:

	31 March 2019 £m	Rate / Return %	Average duration Days	31 March 2020 £m	Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
Total debt	0.0	-	-	0.0	-	-
Fixed rate investments:						
Cash flow surpluses	-	-	-	2.0	0.20	13
Core cash	16.0	1.06	155	13.0	1.09	75
Variable rate investments:						
Cash flow surpluses	7.4	0.78	1	13.6	0.36	9
Core cash	8.0	1.06	219	6.0	0.56	76
Sub-total	31.4	0.99	134	34.6	0.66	46
Long term investments:						
Property Funds	5.0	3.55	-	5.0	3.54	-
Total investments	36.4	2.04	-	39.6	1.02	-

1.2.2 The rise in investment balances reflects: surpluses on business rates and council tax collection funds due to be distributed in 2020/21; unspent provisions for business rate appeals which have yet to be determined by the Valuation Office; and changes in the level of year-end debtor and creditor provisions.

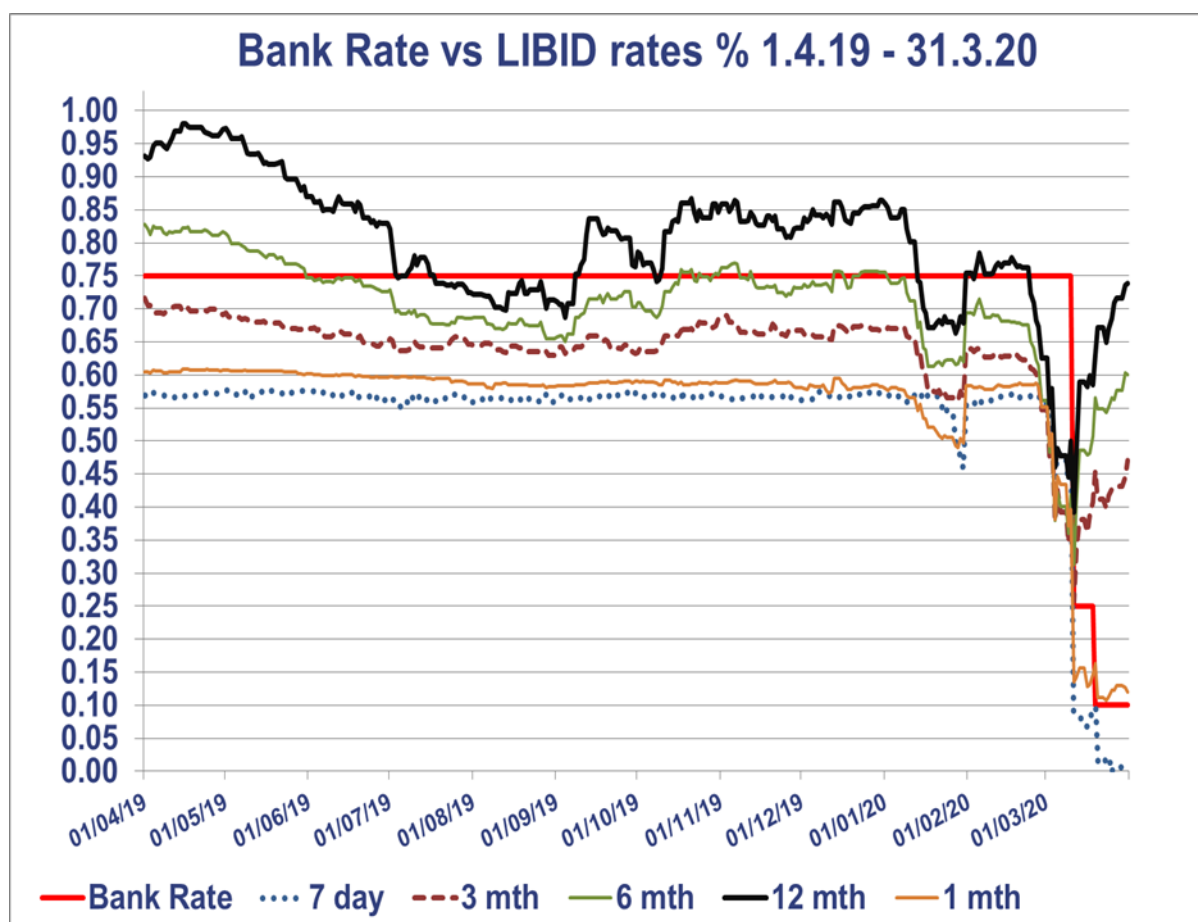
1.3 The Strategy for 2019/20

- 1.3.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was resolved, but would only rise to 1.0% during 2020
- 1.3.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.
- 1.3.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the

financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme market stress and economic conditions.

1.4 Investment Rates in 2019/20

- 1.4.1 Bank rate and investment returns across durations up to 12 months are depicted in the graph below. The Bank Rate cut to 0.25% and then again to 0.1% during March 2020 to support the economy in response to Covid-19 is clearly visible.



1.5 Investment Outturn for 2019/20

- 1.5.1 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 2019/20 Annual Investment Strategy was approved by Council in February 2019 and was subjected to a mid-year review in October 2019. 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.
- 1.5.2 **Cash flow investment.** In 2019/20 cash flow surpluses averaged £19.9m and earned an average rate of return of 0.76%. The average 7-day LIBID rate, used to compare performance, was 0.53%. 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.
- 1.5.3 **Core cash investment.** In 2019/20 core cash averaged £25.1m and earned an average rate of return of 1.10%. The 3-month LIBID rate used as a comparator was 0.64%. 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.
- 1.5.4 **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.
- 1.5.5 This does not however, preclude consideration of an alternative investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return commensurate with the Council's risk appetite. Each such opportunity to be considered on a case by case basis as appropriate.
- 1.5.6 At the start of the year £5m was invested in property investment funds and no further sums were 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 may be made in the future as resources become available from asset disposals and other windfalls.
- 1.5.7 In 2019/20 investment in property funds averaged £5.0m and income of £173,977 was received which represents an annualised return of 3.48%.
- 1.5.8 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.

Property fund (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 2020 (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	938,500	(61,500)
Lothbury (Primary, July 2017)	1,000,000	927,700	939,700	(60,300)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	994,900	(5,100)
LAPF (Primary, June 2018)	1,000,000	922,200	899,900	(100,100)
Lothbury (Secondary, July 2018)	1,000,000	973,000	921,600	(78,400)
Total	5,000,000	4,684,100	4,694,600	(305,400)

1.5.9 Fund capital values rose in 2017/18, were broadly static in 2018/19 and have fallen in 2019/20. The rise and fall mirrors the UK's GDP growth in those years. As a consequence of Covid-19 the UK economy is expected to falter in 2020/21 and further falls in capital values can be expected. Members are reminded that our property fund investments are long term (10 years) and the funds applied to them are not required to meet day to day spending commitments. Capital values are expected to rise over the long term as economic conditions improve.

1.5.10 **Summary.** Investment performance for the year 2019/20 is summarised in the table below:

	2019/20 Average balance £m	Return %	2019/20 Interest/ dividends earned £	2019/20 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	19.9	0.76	150,734	125,000	25,734
Core cash	25.1	1.10	275,447	275,000	447
Long term investment	5.0	3.48	173,977	175,000	(1,023)
Total	50.0	1.20	600,158	575,000	25,158

- 1.5.11 The overall performance of the Authority's investments bettered the revised estimates by £25,158 (£117,158 when compared to the 2019/20 original estimates).
- 1.5.12 In finalising the Council's revised estimates the income estimate for cash flow was increased from £114,000 to £125,000; the return from core cash was increased from £169,000 to 275,000; and income from property funds reduced from £200,000 to £175,000.
- 1.5.13 The higher income from core cash, in particular, reflects higher than expected balances due to Valuation Office delays in processing business rate appeals.

1.6 Compliance with the Annual Investment Strategy

- 1.6.1 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 2019 to March 2020 the requirements set out in the Annual Investment Strategy for 2019/20, as approved by Council in February 2019, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2019/20.

1.7 Treasury and Prudential Codes of Practice

- 1.7.1 Updated Treasury Management and Prudential codes of practice were published by CIPFA on 21 December 2017.
- 1.7.2 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.
- 1.7.3 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.
- 1.7.4 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 2020

Prudential and Treasury Indicators

1 Prudential Indicators	2018/19 Actual £'000	2019/20 Original £'000	2019/20 Actual £'000
Capital expenditure	3,587	5,366	6,407
Ratio of financing costs to net revenue stream	-3.51%	-3.41%	-4.24%
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	£0.20	£0.25	£0.25

2 Treasury Management Indicators	2018/19 Actual £'000	2019/20 Original £'000	2019/20 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	15,411 (42.3%)	40 – 100%	19,610 (49.5%)
Upper limit for total principal sums invested for over 365 days	5,000 (13.7%)	60%	5,000 (12.6%)

3 Maturity structure of new fixed rate borrowing during 2019/20	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

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Extract from Revenue & Capital Outturn Booklet presented to Cabinet - 3 June 2020. Costs attributed to banking arrangements and transfers in lieu of interest are excluded.

DIRECTOR OF FINANCE & TRANSFORMATION

	ORIGINAL ESTIMATE £	2019/20 REVISED ESTIMATE £	PROVISIONAL OUTTURN £
4 TREASURY MANAGEMENT			
Employees			
Salaries	30,000	29,500	28,564
Supplies & Services			
Treasury Advisor & Dealing Fees	10,700	10,700	10,071
	<hr/>	<hr/>	<hr/>
	40,700	40,200	38,635
Less Income			
Interest on:			
Cash Flow Investments	(114,000)	(125,000)	(150,734) a)
Core Cash Investments	(169,000)	(275,000)	(275,447)
Long Term Investments	(200,000)	(175,000)	(173,977)
Other Miscellaneous Interest	(150)	(150)	(85)
	<hr/>	<hr/>	<hr/>
	(483,150)	(575,150)	(600,243)
	<hr/>	<hr/>	<hr/>
<u>Sub-total</u>	(442,450)	(534,950)	(561,608)
Central, Departmental & Technical Support Services			
Central Salaries & Administration	2,550	2,550	2,400
Information Technology Expenses	300	350	313
Departmental Administrative Expenses	14,050	13,950	14,047
	<hr/>	<hr/>	<hr/>
<u>TO SUMMARY</u>	(425,550)	(518,100)	(544,848)
	<hr/>	<hr/>	<hr/>
Full Time Equivalent Number of Staff (including Support Service Staff)	0.89	0.85	

a) Reflects higher cash balances due to Valuation Office delays in resolving business rates appeals.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Management Team

Part 1- Public

Delegated

1 RISK MANAGEMENT

An update on the risk management process and the Strategic Risk Register.

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 18 February 2020.

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 as at the time of writing is appended at **[Annex 1]**.

1.3.2 As you would expect the Covid-19 outbreak and its ongoing impact across the Council’s service areas, businesses and the wider community has been added to the SRR. Members are asked to note both the addition and updates since the last iteration of the Register.

1.3.3 To give Members some reassurance as to the effectiveness of the regime outcomes from the risk management escalation process are reported to the meetings of this Committee unless that is there is something that needs to be brought to Members’ attention in the interim. Members have been kept updated with regard to the Covid-19 emergency via the Council’s website and reports.

1.3.4 Not surprisingly, the number of risks that have been re-categorised as RED, for the time being at least, has increased. These are now:

- 1) Financial position/budget deficit
- 2) Brexit Impact and Economic uncertainty (Impacted by Coronavirus Pandemic)
- 3) Corporate Strategy and Savings and Transformation Strategy
- 4) Waste Services (this was previously categorised as RED, so no change)

1.3.5 Given the significance of the changes as a result of the pandemic, a report on the SRR was also presented to Cabinet at its meeting on 3 June 2020. As we begin to develop plans in response to the pandemic, it is hoped that the risk level can be reviewed again.

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 is appended at **[Annex 2]**.

1.5 Legal Implications

- 1.5.1 There is a Health and Safety requirement for effective risk management to be in place and the Strategy supports this requirement.
- 1.5.2 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.

1.6 Financial and Value for Money Considerations

- 1.6.1 Financial issues may arise in mitigating risk which will be managed within existing budget resources or reported to Members if this is not possible.
- 1.6.2 Effective risk management arrangements make a positive contribution to ensuring value for money is provided in the delivery of services.

1.7 Risk Assessment

- 1.7.1 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.

1.8 Equality Impact Assessment

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

1.9 Policy Considerations

- 1.9.1 Risk management is relevant to all areas of the Council's business.

1.10 Recommendations

- 1.10.1 Members are asked to note and acknowledge the escalation of a number of key risks to RED as a consequence of the coronavirus pandemic.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

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No	Risk Title	Risk Type	Consequences	Date identified	Likelihood Score	Impact score	Overall risk score	Current Mitigation	Desired Likelihood Score	Desired Impact score	Desired risk score	Actions required to ensure mitigation remains	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
1	Safeguarding and PREVENT	S, R	<p>Significant impact should a child, young person or adults at risk come to harm, including radicalisation and child sex exploitation, and TMBC are unable to demonstrate appropriate processes were in place.</p> <p>Coronavirus has increased support to vulnerable individuals.</p>	01/04/2017	3	4	12	<p>The responsibility for safeguarding is with the Chief Executive, rather than an individual service and a review implemented.</p> <p>Audit Review undertaken, identifying areas of weakness to be address, progress to date with Training delivered to all Hackney Carriage and Private Hire Drivers.</p> <p>Secure Database now in place, with secure access, for recording of safeguarding concerns and referrals onto other agencies</p> <p>Community Hub established to support those on NHS shielded list and other non-shielded vulnerable adults.</p>	3	4	12	<p>Posts requiring DBS checks have been reviewed by Legal Services and are now part of a single secure register.</p> <p>Policy procedure on DBS checks reported to Corp MT in Sept 2019.</p> <p>Safeguarding Audit undertaken and completed in 2018/19.</p> <p>Safeguarding concerns highlighted through the work of the Community Hub are referred to appropriate agencies where necessary and also raised with partners at the weekly CSU meetings.</p>	Safeguarding Policy	Chief Executive	Mar-21
2	Financial position/budget deficit	F, R	<p>Financially unstable organisation. Failure to deliver a balanced budget, detrimental impact on quality of service, increased intervention.</p> <p>Failure to maximise New Homes Bonus.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017	4	4	16	<p>The Council provides an annual statement (as a minimum) on the following areas;</p> <p>Treasury Management and Investment Strategy.</p> <p>Robustness of estimates and adequacy of reserves.</p> <p>Effective monitoring control procedures.</p> <p>Savings and Transformation Strategy (STS) reviewed and updated.</p> <p>Unqualified Audit and Value for Money Opinion contained with Annual Audit Letter.</p> <p>Medium Term Financial Strategy (MTFS) updated and shared regularly with Cabinet to keep members aware of current financial situation.</p> <p>Business Rates income monitoring as part of Pool/Pilot arrangements. Now appear to be above baseline following closure of Aylesford Newsprint.</p> <p>Local government finance settlement for 20/21 confirmed as anticipated. New Homes Bonus to be paid in 20/21.</p> <p>Council Tax increase approved by Council for 20/21 at 2.4% (£5)</p> <p>Business Rate performance now expected to be above baseline for 20/21</p> <p>Impact of Pandemic is having significant effect on Council finances. Review and Reassessment underway. Ethos of priority spend only agreed by MT and Cabinet (19 May 2020). Government funding of £1.35m received, but will not be sufficient to cover costs and loss of income in year.</p> <p>Report to Cabinet 30/6/20 regarding impact of pandemic on 20/21 and MTFS. In that report, suggested range of £7m to £10m to be required from reserves and balances. Since then more government funding announced regarding 'loss of income' but fine detail and guidance still awaited at time of writing. Target of £500k saving in 20/21 relating to the essential spend policy.</p>	3	3	9	<p>Areas of potential savings yet to be identified and prioritised, with commitment to delivery of those selected.</p> <p>Commissioning of service reviews via MT to identify potential areas of transformation and savings.</p> <p>Strategic asset review to be undertaken.</p> <p>O&S Committee Jan 18 established work programme to identify potential savings.</p> <p>Fair Funding review underway but will need to await outcome which due to Brexit has been delayed.</p> <p>Savings target updated in August 2019 to £675k, Cabinet in June asked how funding gap should be address with focus on first tranche.</p> <p>Further update to MTFS in progress. Report being prepared for Cabinet 16 October</p> <p>Draft budget prepared for 20/21 will need to assessed in the light of the provisional local government finance settlement, which has been delayed due to the General Election. Draft budget and MTS show savings target at £320k</p> <p>Continued tight rein on spend in hand. Returns are being submitted to government on a monthly basis as required by MHCLG with lobbying through various groups for additional funding. Re-focus and re-determine Council budget priorities. Rebuild Medium Term Financial Strategy based on impacts during pandemic and forecast impacts into the future. Reset Savings and Transformation Strategy Set aside £200k in an earmarked reserve for recovery (Cabinet 3 June 2020). In due course work to deliver Deliver MTFS and STS, adjusting priorities in line with other strategies and outcome of Fair Funding Review by government. Further government funding has been announced since report to Cabinet regarding MTFS impacts on 30 June, but fine detail still awaited. Once received, gforecasts will be updated. Further lobbying taking place regarding losses relating to leisure centres which do not appear to have been covered through latest announcements. Essential spend target of £500k in 20/21 approved by Cabinet to be monitored by MT.</p>	Vision- to be a financially sustainable Council. Taking a business like approach.	Director of Finance and Transformation	Oct-20

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3	Brexit Impact and Economic Stability (Impacted by Coronavirus Pandemic)	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. Coronavirus pandemic has significant economic implications for businesses and residents.	01/04/2017	4	4	16	Kent-wide working to understand, plan for and react to pressures. Regular review of; MTFS reflecting economic factors Treasury Management and Investment strategies. Bid for Brexit funding compiled but even funding distributed to District Councils, irrespective of geographic location. The potential for No Deal BREXIT could have far wider and more impactful implications that has been factored into MTFS. The likelihood of a No Deal Brexit has reduced (January 2020), however impact of coronavirus is significant. Chancellor has awarded business reliefs through Spring Budget 2020, grants schemes for businesses, further rate reliefs, loans schemes and employment schemes. Nevertheless economic downturn and recession still very likely due to the longevity of the pandemic.	3	4	12	Council working with Kent Resilience forum and County Partnership groups including Strategic and Tactical Co-ordinating Groups. Business Impact assessments complete. Business continuity planning updated to ensure smooth running of services to public, including expansion of remote working initiatives with Laptop access to Council IT infrastructure. In order to prepare management Brexit Emergency Planning Exercises were held in March 2019. Work still ongoing with partners whilst Brexit delayed until 31st October 2019. Government advice to plan for No Deal Brexit. MT to review plans weekly including engagement with KRF and Countywide planning arrangements. MT to monitor further funding arrangements announced and will plan accordingly. MT undertaking review of Business Continuity Plans for our key services led by service managers. Further Brexit funding announced. TMBC to receive allocation of £70k (money not yet received) Investment in additional laptops made in lead in to pandemic declaration meant that the majority of Council staff could work efficiently from home during 'lockdown' providing existing services (in the main) as well as new ones. Reports will be made to appropriate Boards and Committees as things develop. Update report on digital strategy to FIPAB 22 July.	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team	Oct-20

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4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	<p>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.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017				<p>STS reviewed and updated in line with review of MTFS. With regular reports to update MT and Members</p> <p>Corporate Strategy reviewed - report to O&S January 2020</p> <p>Plans underway to reassess implications of pandemic - report to Cabinet 3 June 2020</p> <p>Commitment to review and update MTFS and STS</p> <p>Report to Cabinet 30/6/20 regarding impact of pandemic on 20/21 and MTFS. In that report, suggested range of £7m to £10m to be required from reserves and balances. Since then more government funding announced regarding 'loss of income' but fine detail and guidance still awaited at time of writing. Target of £500k saving in 20/21 relating to the essential spend policy.</p> <p>STS to be reviewed and updated by MT and back to Cabinet in Autumn</p>				<p>Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected.</p> <p>Commissioning of in service reviews via MT to identify potential areas of transformation and savings.</p> <p>Strategic asset management review to deliver new income .</p> <p>O&S programme to be supported in order to deliver savings to contribute to STS.</p> <p>MTFS and STS updated by Members Feb 2019, and further report to Cabinet June 2019.</p> <p>MTFS report to go to Cabinet 16 October 2019</p> <p>Numbers of decisions and recommendations to contribute to funding gap being progressed. Update of MTFS following setting of 20/21 Budget budget shows need for £320k savings to be delivered in 3-4 years through STS</p> <p>MTFS and STS will need to be reviewed and updated as a priority once we have sufficient information to make informed estimates which can form the basis of plans. Impact will be significant in MTFS looking forward. General Revenue Reserves will be impacted in short term.</p> <p>Report on MTFS to Cabinet 30 June 2020. Potential for £7m to £10m from reserves and balances. Since then further government funding announced but detail still awaited. STS will be updated by MT and reported back to cabinet in Autumn. 1 year Addendum to corporate strategy to guide Review, Re-orientation and Recovery. Regular monitoring by Cabinet with reports to various Advisory Boards and Committees</p>	<p>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.</p>	<p>Chief Executive / Director of Finance and Transformation/ Management Team</p>	Oct-20

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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. Delay to timetable due to coronavirus restrictions. Shrinking 'plan period' and housing trajectory as a result. Reputational risk and widespread public concern arising from decision making on strategic development. Lack of infrastructure to support future development.	01/04/2017	3	4	12	<p>Audit of Local Plan process complete with Specialist Consultants and Counsel engaged where appropriate on key issues for examination.</p> <p>The following Statements of Compliance were submitted with the Local Plan on 23.1.19:</p> <ul style="list-style-type: none"> •SC1 - Duty to Cooperate Statement •SC2 - Soundness Self-Assessment Tool Kit •SC3 - Legal Compliance Checklist •SC4 - Equality Impact Assessment (EQIA) <p>Duty to Co-operate Compliance Statement submitted 23.1.19. Position Statements with neighbouring Authorities prepared. On-going discussions and audit in hand.</p> <p>Regular contact with Inspectors maintained via Programme Officer.</p> <p>Additional consultations on some examination documents submitted since January carried out November/December 2019.</p> <p>Matters Issues and Questions for first phase of Hearings published February 2020.</p> <p>Dates for first phase of Hearings set for May/June, but subsequently postponed for at least 6 months in March 2020 due to Government restrictions.</p> <p>Exploring ways Hearings could take place under current restrictions.</p> <p>Members are regularly updated by email by the Planning Policy Manager and reports to P&TAB.</p> <p>Liaison undertaken with key stakeholders, service and infrastructure providers.</p>	3	3	9	<p>Counsel and key consultants retained until end of Hearings. Counsel providing advice for preparing Council's Statements (Feb 2020 onwards). Consultants monitoring/updating evidence where appropriate to ensure Council's case is as robust as possible.</p> <p>Submission to Sec of State made 23rd Jan 2019.</p> <p>Inspectors appointed and dialogue commenced. New lead Inspector appointed February 2020 (Ms Louise Crosby replacing Mr Simon Berkeley).</p> <p>Questions raised by inspectors responded to on 31st July 2019.</p> <p>Additional consultation requested by Inspector implemented November/December 2019. This will delay the date of the Examination to later in 2020.</p> <p>Correspondence received by Inspector on 13/09/19 identifies 3 key matters to be covered by phase 1 of the hearings (this was subsequently increased to 4 Matters); no dates set for phase 2 of the hearings.</p> <p>Ensuring that the practical arrangements for the Hearings are satisfactory to the Inspectors, including venue (The Orchards, EMR has been reserved for up to 10 sitting days); and necessary adjustments for social distancing including virtual hearings and/or traditional hearing with social distancing (options being explored in liaison with P.O. May 2020) to ensure the 'right to be heard' by those expressing a wish to participate.</p> <p>Maintain regular Duty to Cooperate meetings with neighbouring Authorities and KCC. Meetings have continued virtually during lockdown.</p> <p>Continue to update Members on status of Local Plan (including Update Report for Members at 28.7.20 P&TAB using MS Teams).</p>	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	Aug-20
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	3	4	12	<p>Review of staff resources and skills via service reviews.</p> <p>Organisational structure reviews are part of S&TS to achieve efficiency, coordinated service delivery and reflect changing legislative and policy requirements and priorities.</p>	3	4	12	<p>Succession planning along with Development of further skills and expertise through strategies such as shared services and specialist Commissioning.</p> <p>Engagement of external consultants and specialists where required.</p> <p>Resilience and rationalisation of existing structures.</p> <p>Recruitment and retention strategy to be reviewed by MT.</p> <p>Pay Award agreed by Members, 2% for 2018/19 in line with national award. 2.5% for 2019/20 above the national award.</p> <p>Structural reviews approved by Members in 2017/18 and 2018/19.</p> <p>Personnel staff recruited with specialist experience in recruitment. This was demonstrated with a revised methodology for the recruitment of the DPEHH and Head of IT.</p> <p>Transitional arrangements to encourage development opportunities where appropriate.</p>	HR Strategy Savings and Transformation Strategy	Chief Executive	Aug-20

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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.	01/04/2017	3	4	12	<p>Lone working policy and service based practices to be continuously monitored.</p> <p>Health and Safety considered by management at weekly SMT meetings.</p> <p>Staff involvement with JECC (supported by Members).</p> <p>Ongoing review undertaken to react to potential key risk areas.</p> <p>Organisational learning and response to national events.</p> <p>Incident and near miss reporting.</p> <p>Coronavirus information being given to staff regularly based on public health advice and guidance and, where appropriate, Risk Assessments to be shared with staff and Union.</p>	2	3	6	<p>Embedding and dissemination of good practice through staff briefings.</p> <p>Officer led Health and Safety Group identifying cross organisational issues with feedback to Management Team and Health and Safety Officer.</p> <p>All services have reviewed all their Health & Safety local Procedures in particular Lone working and service specific risk assessments.</p> <p>Staff survey to be drafted to consider impact of work on wellbeing and whether support services meet need and communication channels are adequate.</p> <p>Staff survey has been completed to consider impact of work on wellbeing and whether support services meet need and communication channels are adequate. Findings from staff survey being completed.</p> <p>Corporate Health & Safety Policies and procedures are up to date and reviewed regularly which all staff can access.</p> <p>Continuing focus on risk assessment process including reviews as a result of Coronavirus pandemic. Further staff wellbeing survey to focus on working at home and wellbeing.</p>	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health	Sep-20
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	3	4	12	<p>The Council has a nominated Senior Information Risk Officer and Data Protection Officer.</p> <p>Assessment of Legal implications included within all reports to Members.</p> <p>GDPR requirements are addressed by two officer groups, Information Governance Group and Procurement OSG, which includes Legal representation.</p> <p>CPD and Professional Monitoring offered to all staff</p> <p>The Council has undertaken both Corporate Governance and GPDR reviews / audits.</p> <p>Legal Services give sign off of key corporate projects</p>	2	4	8	<p>The Council continues to disseminate new legislative requirements to both Officers and Members.</p> <p>Officers ensure that professional upadation training is undertaken.</p> <p>Members received GDPR training in July 2018, with all officers completing e-learning on GDPR by May 2018.</p> <p>Revised constitution, updated to reflect GDPR approved by Members in July 2019.</p> <p>Additional GDPR and Cyber Awareness Training now being undertaken by all staff and members, completion date of October 2019.</p> <p>Protocol for virtual meetings agreed in May 2020 to allow for all Members to continue during the pandemic.</p>	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	Oct-20
9	Cyber security	F, R	Loss of data and legislative breach, leading to financial penalties and reputational impact	01/04/2017	3	4	12	<p>The Council has; IT Security Policy</p> <p>Network Security Measures (Firewall, access level controls)</p> <p>Considered cyber insurance</p> <p>Established and Information Governance Group Reviewed and cleansed data held by the Authority.</p> <p>Work underway to mitigate processor flaws which could lead to external cyber attack. Appointed a Member Cyber Champion.</p> <p>Rolled out Cyber awareness training to all staff and Members. Deployed software to identify potential confidential data held on the servers. Renewed and upgraded the software to identify and stop cyber attacks.</p> <p>We have a 2 level system for security with the KPSN gateway being the first level and then the Council's own firewalls the second.</p>	4	3	12	<p>The Council has; Procured cyber security 'recovery' contract via Kent Connects. Prioritised the resources (both financial and staff) to ensure relevant updates are carried out in a timely manner. Continued roll out of mitigation for processor flaws. Considers cyber security as part of disaster and business continuity recovery process. Deployed improved cyber security training to all staff and members to be completed by end of October 2019.</p> <p>New software in process of procurement for cyber management Solarwinds system purchased and in implementation phase. Timing has been impacted by pandemic in that priorities have needed to be reassessed.</p>	IT Strategy	Director of Finance and Transformation	Oct-20

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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	3	4	12	IT Strategy and action plans reviewed and updated. Invest to save opportunities and funding identified. Digital Strategy - Updated and approved by Members in July 2019. Replacement of legacy business systems and greater use of digital alternatives (cloud based) ongoing Disaster Recovery solution (cloud based) implemented Staff able to work remotely - additional laptops purchased.	3	4	12	New IT Strategy for period 2018-22 with linkage to MTFS and Savings and Transformation Strategy. Development of virtualisation project to enable efficient and effective ways of working. Review of data quality to ensure improvement and efficiency can be achieved. Laptops and required software rolled out the Councillors, MT Members and Senior Management Staff. New IT Strategy approved with specific emphasis to improve website functionality, website work commissioned following FIPAB approval in January 2019. New Head of IT appointed April 2019 with significant experience of implementing digital strategies in Local Authorities Officer and Member Groups established to consider implementation of digital agenda and changes to the Website format and content. Website capital plan evaluation to FIPAB 18 September 2019. total Mobile purchased and being rolled out. Website software in procurement completed and contract offered. Numerous digital projects underway. Report to FIPAB 22 July on digital strategy progress	IT Strategy	Director of Finance and Transformation	Oct-20
11	Elections	R	Failure to comply with legislation, miscounts and significant reputational impact. Police & Crime Commissioner elections deferred until May 21 as a result of Coronavirus pandemic Boundary Commission Review announced - see report to Cabinet 30 June. Full council briefing scheduled for September	01/04/2017	2	4	8	Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress. Government cancelled all elections due May 2020 due to pandemic. Elections in May 2021, will be more complex due to potential combined County and PCC elections	2	4	8	Broadening of staff skills and experience to build resilience. Borough Council Election and European Election delivered successfully. MT horizon scanning on any increased chance of snap General Election. RO and DRO's assessing risks. Update 12/09/19. Risks continue to be evaluated with enhance risks if election is post "no deal" Brexit due to potential congestion and disruption issues Election held on 12 Dec 2019. NO issues arising due to detailed planning. Officer time will need to be directed to work with Boundary Commission	Statutory requirement	Chief Executive	Oct-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	3	4	12	The Council has in place; Business Continuity Plan. Corporate Business Continuity Risk Register Disaster Recovery Plans Inter-Authority Agreements Mutual Aid Agreement Partnership agreement with Kent Resilience Team. Emergency Planning Support Officer. Duty Emergency Coordinator System and Duty Officer System introduced to provide greater resilience.	3	4	12	Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis. 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. New Duty Officer rota in place to support Duty Emergency Coordinators out of hours. Now fully trained. Out of Hours Manual reviewed and updated. DSSLTS sits on Kent Resilience Forum Board Actions taken in response to the Covid 19 pandemic will be reviewed and lessons learnt for Annual Emergency planning review to be reported to Management Team. Pandemic response dealt with as emergency through Kent Resilience Forum. Reports presented to Cabinet which cover Review Reorientation and Recovery. More detailed reports to be presented to relevant Advisory Boards.	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services	Jan-21
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	3	3	9	Continual scanning of national / regional and Kent wide agenda by CE / Corporate Services manager. Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings. 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	White Paper on Devolution is to be published in the Autumn. Analysis of this will be a priority action.	External risk/national issue	Chief Executive	As required

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14	Partnerships inc. shared services	F, R, S	<p>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.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017	3	3	9	<p>Regular liaison meetings with partners. Partnership Agreements in place and reviewed as appropriate.</p> <p>Good communication with staff.</p> <p>In the light of the Carillion 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.</p> <p>Contractors and partners are impacted by the pandemic. The Council is liaising and supporting major partners to ensure that services can continue.</p>	3	3	9	<p>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.</p> <p>New Waste Services Contract in partnership with Urbaser, TWBC and KCC commenced 1st March 2019. Formal Inter Authority Agreement and Partnership Agreement in place.</p> <p>Ground Maintenance Contract extended in light of good performance of contractor.</p> <p>Arrangements with Gravesham Borough Council on shared management arrangement for revenue and benefits management ceased September 30 2019. Staffing structure amended and approved by GP to have all management in-house.</p> <p>The Council is working within guidance issued by Cabinet Office "Guidance on responsible contractual behaviour in the performance and enforcement of contracts impacted by the Covid-19 emergency " and Procurement Policy Notes to support contractors and suppliers.</p>	Savings and Transformation Strategy	Chief Executive	As required
15	Welfare reform inc. Housing need	F, R, S	<p>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.</p> <p>Coronavirus pandemic has significant economic implications for the Council, businesses and residents.</p>	01/04/2017	4	3	12	<p>Cross sector working (e.g. welfare reform group) to identify issues and solution.</p> <p>Providing advice to residents on welfare and housing issues, or signposting to relevant providers.</p> <p>Working with partners to identify land and funding opportunities.</p> <p>Working with Registered Provider Partners to ensure needs of residents are being met.</p> <p>Working with owners to bring long term empty properties back into use.</p> <p>New initiatives for Temporary Accommodation, including purchase of flats.</p> <p>Review implications for new Homeless Reduction Act requirements.</p> <p>Concessionary charges for key services. EQIA assessment of key decisions included in all Board reports.</p> <p>HRA implications assessed and GPC agreed new posts to deliver service which have been recruited to.</p> <p>Universal Credit rolled out Nov 18 for Tonbridge & Maidstone Job Centres.</p> <p>Signposting now to UC rather than HB for new working age claimants.</p> <p>New CTR Scheme approved and comes into effect 1 April 2020. Chancellor announced hardship fund to assist with coronavirus impacts - details yet to be seen.</p> <p>Council tax and business rates instalments being deferred if requested by residents impacted by furlough schemes etc. Chancellor's hardship funds (up to £150 for working age people with council tax support) credited to council tax accounts as appropriate. Community hub set up to help those who are shielded or otherwise vulnerable. Signposting for help by telephone or website.</p> <p>Significant focus on rough sleepers during Covid-19 pandemic to ensure "all in" and work continues to secure long term accommodation. Significant focus on temporary accommodation and in borough provision as well as framework</p>	3	3	9	<p>Prepare for impact of further roll out of Universal Credit by learning from other areas earlier in the programme.</p> <p>Consideration of review of housing service to meet the needs following Housing legislative changes.</p> <p>Temporary Accommodation purchased.</p> <p>Member training from DWP provided re UC Nov 2018.</p> <p>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.</p> <p>UPDATE: July 2019 Further review of staffing within housing underway in response to nationally recognised increased demand as a result of impact of HRA.</p> <p>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.</p> <p>Report to FIPAB 18 September with capital plan scheme for purchase of additional Temporary Accommodation.</p> <p>Report to FIPAB 18 September confirming launch of consultation on CTR Scheme.</p> <p>New CTR scheme proposed - FIPAB Jan 20.</p> <p>Rollout of national hardship fund underway</p> <p>New temporary accommodation purchased - refit needed to make fit for purpose. This to be accelerated in next few months.</p> <p>Improved working with TA providers leading to more guarantees of available accommodation and working towards a procurement exercise to improve value for money.</p> <p>Improved working with main housing provider to identify trends/specific cases across borough to jointly agree approach to preventing homelessness using housing provider mechanisms, DHP payments and homeless prevention funding where</p>	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	Oct-20

No	Risk Title	Risk Type	Consequences	Date identified	Likelihood Score	Impact score	Overall risk score	Current Mitigation	Desired Likelihood Score	Desired Impact score	Desired risk score	Actions required to ensure mitigation remains	Links to Corporate Objectives / Strategies	Lead on behalf of Management Team	Review Date
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	3	3	9	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	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	3	4	12	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 Council's to help develop local Flood Plans. Team of Volunteer Flood Wardens in place.	3	4	12	Work with partner organisations via Kent Resilience Forum continuing. Council represented on key County Partnership Groups overseeing Brexit implications including Strategic Coordinating Group. 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-21
18	Contaminated Land	F, R, S	Impact on homes, public health. Residents put at risk of harm.	01/01/2018	3	4	12	Working with partners (EA and other) and specialist consultants to monitor potential sites and assess risk to inform action as is needed.	3	3	9	Priory Wood, Tonbridge Appointment of contractor to monitor emissions made in June 2019. Initial report shows no cause for concern at this stage. Detailed investigation is ongoing with a final report/risk assessment expected around September 2020.	Contaminated Land Strategy	Director of Planning Housing and Environmental Health	Oct-20
19	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. Coronavirus pandemic has significant economic implications for businesses and residents.	01/07/2018	4	4	16	Partnership arrangement with TWBC, with allocation of key tasks. Internal Project Group reporting regularly to MT, Members, including a separate Member Working Group. External advice sought from specialists on key decisions. Detailed project plan, risk register and marketing plan in place. New inter authority agreement with KCC encourages improved recycling performance and shares risks and rewards. IT, Communications and Operations identified as crucial work streams and individual working groups established to manage and implement these work areas. Waste services have been affected by pandemic, and health & safety requirements. Agreed with contractor to cease collection of garden waste and bulky waste booking system for a period of time to allow focus on recycling and general waste. Garden waste collection recommenced 11 May, and bulky waste booking started up just prior to that. Residents will have subscriptions extended to compensate. New subscriptions now available. Saturday freighter service also suspended. Street cleansing was not suspended but has been impacted as other services have taken priority. Roll out of service to flats postponed	3	3	9	New contractor (Urbaser) appointed with commencement in March 2019. New service delivery arrangements, including opt in garden waste collections commenced 30th September 2019. Operational and Marketing plan approved by members in Feb 2019. Contractor Annual Service plan to be monitored by Partnership Manager. Garden Waste charges set to encourage uptake Government consultation on new Waste & Resources Strategy including greater consistency of collection arrangements across local authorities. Response sent on new Government Strategy in liaison with Kent Resource Partnership. Contract performance, following new service delivery arrangements, has been unsatisfactory in terms of missed collections and uncompleted rounds. Focus is now on ensuring the contractor delivers the contract in accordance with the specification across the whole borough. Uptake of garden waste subscription has been positive and exceeded 30% initial target. Reports on progress submitted to meeting of SS&EAB and Member Liaison Group in place. Contract performance improved. Garden waste collection and new subscriptions recommenced. Consideration of date for roll out of new service to flats and subsequent reduction in bring bank sites to be reviewed.	Delivery of cost effective service to meet customer needs.	Director of Street Scene, Leisure & Technical Services	Mar-21

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

	Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Chief Executive and Central Services				
Finance and Transformation	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	Removed	Training undertaken and risk removed following software changes.
	Disaster recovery	IT Disaster recovery - need to provide adequate resources	Removed	IT backup equipment now in place
	Covid-19	Pandemic issues	Ongoing	Part of Strategic Risk Register.
	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
Planning, Housing and Environmental Health	Temporary Accommodation (TA)	Increasing use of TA (backdrop of HRA implementation/access to affordable PRS etc.) resulting in increasing cost to Council	Ongoing	Work at a strategic level to respond to increasing demand is ongoing however will take time to come to fruition and have impact on numbers. Also important to note that numbers are not static and increases are expected.
	Temporary Accommodation (TA)	Personal injury claims	Ongoing	During the Covid-19 crisis we do not have the same property inspection regime and people are spending more time at home.
	Food & Safety	Increased risk of food complaints/poisoning	Ongoing	During the Covid-19 crisis the ceasing/reduction in the food hygiene inspection regime may result in food safety issues.

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

	Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Street Scene, Leisure and Technical Services	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. Follow up exercise (Loki II) to be undertaken in September 2019. Remote access capabilities reviewed, and implications for Council's key Services reviewed by Management Team. Ongoing attendance at all Strategic/Tactical Coordinating Group meetings.
	Legionella	Problem identified in LLC Dry change showers.	Removed	Following action taken in accordance with HSE guidance. Issue addressed through ongoing dosing and showers now reopened to public. Regular sampling ongoing and advice received from external consultant.
	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 undertaken which identified the majority of trees are safe. Works to small number of trees required.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Management Team

Part 1- Public

Delegated

1 ANNUAL GOVERNANCE STATEMENT 2019/20

This report presents the Annual Governance Statement for the year ended 31 March 2020 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 2019/20.

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 is presented elsewhere on this agenda 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 2020 is attached at **[Annex 1]**. The Statement has been prepared by way of a self-assessment questionnaire and supporting evidence. The same as that accompanying 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 2020.

Background papers:

Nil

contact: Neil Lawley
Paul Worden

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 2020 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 continue to be a financially sustainable Council with strong leadership that delivers valued services, a commitment to delivering innovation and change to meet the needs of our Borough guided by our values and priorities: Achieving efficiency; Embracing effective partnership working and funding; Valuing our environment and encouraging sustainable growth; and Innovation.

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.

Three specific issues that required corporate ownership, action and monitoring of progress in 2019/20 and identified as high risk areas on the Strategic Risk Register were the new Waste Services contract and subsequent contractor performance issues, Brexit preparedness and Cyber security.

In the latter part of the year 2019/20 the Covid-19 pandemic had a profound impact across service areas, businesses and the wider community testing the Council's business continuity planning arrangements. It is also expected to have a significant adverse impact on the Council's reserve balances as a result of an anticipated marked reduction in a number of our major income streams. We will not know to what extent for some time, but may be depleted such that the scale and timing of savings targets set out in the medium term financial plan will need to be revisited.

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 2019/20 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 2018/19 audit concluded 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.

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 2019/20 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

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

Councillor N. J. Heslop
Leader of the Council

Dated 27 May 2020

Dated 27 May 2020

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 STATEMENT OF ACCOUNTS 2019/20 AND EXTERNAL AUDITORS REPORT/ PROGRESS UPDATE ON THE AUDIT OF THE ACCOUNTS

This report presents a set of Accounts for 2019/20 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, together with the external auditors report/ progress update on the audit of the Accounts. Members are asked to note both the Statement of Accounts as currently presented and the external auditors report/ progress update on the audit of the Accounts. The Engagement Lead and or their representative will be at the meeting to present the report/ progress update and to answer questions.

1.1 Introduction

1.1.1 An audited set of Accounts must be approved by the Council or a Committee of the Council by 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic). 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 2019/20 report to Cabinet on 3 June 2020.

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 2019/20.

Covid-19 Pandemic

1.2.2 There will be numerous issues that will impact on local authorities as a result of the Covid-19 pandemic. Specific areas within the financial statements include:

- Valuation uncertainty in respect of property, plant and equipment, investment property and heritage assets. The impact that the Covid-19

pandemic has had on valuations has been discussed with our external valuers and their response is set out at Note 7.

- Property investment funds where valuers include a statement of ‘material valuation uncertainty’ declaration in their reporting and advice. The impact that the Covid-19 pandemic has had on valuations is set out at Note 10.
- Pension Fund Assets and Liabilities – The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Further information relating to the pension scheme can be found in Note 11.
- Collectability of debt – It is prudent to establish a provision (impairment allowance) for non-payment of debt. Further details relating to the impairment allowance and the potential adverse impact of the Covid-19 pandemic on collectability of debt can be found in Note 17.

1.2.3 A set of Accounts for 2019/20 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 2020. 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.

1.2.4 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.

1.2.5 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.

1.2.6 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 2020 and its income and expenditure for the year ended 31 March 2020 by no later than 31 May (for the 2019/20 Accounts the date has been moved to the 31 August in response to the Covid-19 pandemic).
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 31 July (for the 2019/20 Accounts the date has been moved to the 30 November in response to the Covid-19 pandemic) 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 Prior to commencing local authority audits the external auditor had to complete the audits of National Health Service Trusts which took longer than they might ordinarily have done due to additional work/ working arrangements as a result of the Covid-19 pandemic.

1.5.3 At the time of writing this report the audit of the financial statements is in progress and it is hoped that either an Audit Findings Report or alternatively a progress update will be available at a time closer to the meeting date and published as a supplementary paper to this agenda.

1.6 Legal Implications

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

1.7 Financial and Value for Money Considerations

1.7.1 As set in the report and accompanying documents.

1.7.2 The fee has increased from that originally set by Public Sector Audit Appointments Limited (PSAA) from £35,248 to £42,748 following changes to the scope and depth of audit work required.

1.7.3 The budget year 2020/21 and review and update of medium term financial planning assumptions now the focus of attention.

1.7.4 In the latter part of the year 2019/20 the Covid-19 pandemic commenced its profound impact across service areas, businesses and the wider community testing the Council's business continuity planning arrangements. It will, in all likelihood, also have a significant adverse impact on the Council's finances and, in turn, reserve balances.

1.7.5 Primarily as a result of a likely marked reduction in sources of income (council tax receipts, business rates, fees and charges, rental income and investment income). There are also unbudgeted costs to be met, both time limited and ongoing, e.g. setting up and operation of community hub facilities and increase in temporary accommodation costs.

1.7.6 We will not know the extent of the impact on reserve balances for some time, but believe it safe to say unless there is further significant tranches of funding provided by the government, depleted such that the scale and timing of savings targets set out in the Medium Term Financial Strategy will need to be revisited.

1.7.7 As reported to Cabinet in May and again in June the indicative 'ballpark' figures we have come up with are a shortfall in income of between £3m and £5m and increased costs of £350,000 in 2020/21, but again should stress these are best guesses and will undoubtedly change. The scale of the adverse impact beyond 2020/21 dependent on the speed and extent of the recovery. In addition, the Leisure Trust that manages the Council's main leisure facilities on its behalf is in need of financial support. The extent and shape of that support and over what time period is difficult to determine at this stage.

1.7.8 To date two tranches of 'emergency' funding has been provided by the government. The first tranche was £40,538 and the second tranche £1,316,352 giving a total allocation of £1,356,890.

1.7.9 Be assured, I and Management Team will continue to closely monitor the impact on the Council's finances as more information becomes available and a better understanding begins to emerge, and update Members via the Finance, Innovation and Property Advisory Board.

1.8 Risk Assessment

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

1.8.2 We will not know the extent of the adverse financial impact as a result of the Covid-19 pandemic for some time, but in all likelihood our reserve balances will be very much reduced from that assumed in February 2020; and as a result, in turn, have an adverse impact on the scale and timing of the savings to be achieved.

1.9 Equality Impact Assessment

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

1.10 Recommendations

1.10.1 Members are **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) Note and endorse the Statement of Accounts 2019/20 as currently presented.
- 3) Note the Audit Findings Report/ Progress Update on the audit of the Statement of Accounts for 2019/20 (to be published as a supplementary paper to this agenda).

- 4) Note that the Covid-19 pandemic will, in all likelihood, have a significant impact on the Council's reserve balances and as a result, in turn, have an adverse impact on the scale and timing of the savings to be achieved.

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 and J A Warner Ltd.

Sharon Shelton
Director of Finance and Transformation

Overview of Statement of Accounts 2019/20

The Statement of Accounts 2019/20 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 16)

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 2019/20; a review of the year; and possible issues for the future.

2) Statement of Responsibilities for the Statement of Accounts (Page 17)

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

3) Comprehensive Income and Expenditure Statement (Page 18)

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 -£10.4m compared to -£13.5m in 2018/19. The movement of £3.1m is largely due to:

- Actuarial gain of £3.5m in respect of the Pension Fund. This compares to actuarial gain of £6.5m in 2018/19.
- Decrease in taxation and non-specific grant income of £1.9m in part due to the cessation of the Kent wide 100% Business Rates Retention Pilot arrangements.
- No net gain in the fair value of investment properties compared to £1.3m in 2018/19. Investment property not subject of revaluation in 2019/20.
- Increase in net cost of services of £2.0m. Increase due to, amongst other things, increased pension costs under IAS 19, increased waste collection costs and temporary accommodation costs and loss of income claim payable to the Tonbridge and Malling Leisure Trust offset by increased recycling income.
- Offset by revaluation of non-current assets net gain of £8.8m. This compares to net gain of £3.9m in 2018/19.

4) Movement in Reserves Statement (Page 19)

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 20)

This sets out the financial position of the Council as at 31 March 2020. 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 2020 the total value of the Council's non-current assets was £98.9m (£87.9m at 31 March 2019). 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 public conveniences were the subject of revaluation. In addition to public conveniences, leisure premises, car parks where material, council offices and the Tonbridge Castle Gatehouse were also the subject of revaluation. The resulting revaluation was a net gain of £8,665,000, gain of £8,783,000 recognised in the revaluation reserve and impairment of £118,000 recognised 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 £0.7m is primarily due to a reduction in the amount owed under the Business Rates Retention scheme on the cessation of the Kent wide 100% Business Rates Retention Pilot arrangements offset by increase in other debtors in part due to increase in homeless caseload.

The upward movement in creditors of £3.9m is largely due to the amount owed to central government in respect of housing benefit subsidy paid on account. Other factors include advance funding related to the Covid-19 pandemic offset by the cessation of the Kent wide 100% Business Rates Retention Pilot arrangements.

The upward movement in provisions of £0.8m 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 2020 was £55.2m and as at 31 March 2019 £56.7m. 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 £20.4m at 31 March 2020 comprising:

Revenue Reserve for Capital Schemes	£7.5m
Building Repairs Reserve	£0.5m
Property Investment Fund Reserve	£1.7m
Other Specific Earmarked Reserves	£4.1m
General Revenue Reserve	£6.6m

6) Cash Flow Statement (Page 21)

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 inflow of £10.1m largely due to movement of investments from fixed term deposits to liquid accounts (money market funds / notice accounts) which are treated as cash equivalents.

7) Notes to the Accounts (Pages 22 to 70)

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

8) Collection Fund and Associated Notes (Pages 71 to 74)

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 75 to 78)

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 79 to 80)

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 2020 and its income and expenditure for the year ended 31 March 2020, 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 2019/20.

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 2019/20; 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 2020.

In doing so, the following have been done:

- A detailed closedown timetable was prepared and approved by the Corporate Management Team, and communicated to all Services.
- Detailed Year-End Service Guidance Notes were prepared and issued to all Services.
- Recommendations made by our external auditors following the audit of the 2018/19 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 has been balanced.
- The total for each accountant as per the trial balance has been agreed to the net total as per the ledger control sheets.
- The Total Service Expenditure as per the General Fund has been agreed to the movement in the General Fund on the Integra General Ledger.
- 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 19 February 2019 and other major precepting authorities.
- The total expenditure chargeable to the general fund and reserve balances shown in the Expenditure and Funding Analysis agrees to the net increase/decrease in general fund and reserve balances shown in the Movement in Reserves Statement.

- The total comprehensive income and expenditure for the year as shown in the Comprehensive Income and Expenditure Statement has been agreed to the Total Reserves movement reflected in the Balance Sheet.
- 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.
- An Analytical Review with explanatory notes of significant variations between 2018/19 and 2019/20 has been prepared.
- In preparing these Accounts due regard has been taken of the Local Authority Accounting Panel (LAAP) Bulletin 05 (Closure of the 2019/20 Financial Statements).

Signed:

Dated: 27 May 2020

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

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Chair of the Audit Committee

Part 1- Public

Delegated

1 MEMBERS ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

Under International Standards on Auditing our external auditor asks those charged with governance, which for this purpose is the Audit Committee, to consider and formally respond to a set of questions.

1.1 Introduction

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

1.1.2 To assist our external auditor meet the requirements of International Standards on Auditing they ask those charged with governance, which for this purpose is the Audit Committee, to consider and formally respond to a set of questions.

1.2 Assurance Evidence

1.2.1 The questions and responses can be found at **[Annex 1]**. The responses have been prepared and agreed with the Chair of the Audit Committee. Members of the Audit Committee are asked to consider and endorse the responses given.

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

1.3 Legal Implications

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

1.4 Financial and Value for Money Considerations

- 1.4.1 Non-compliance with these Standards could result in additional work being required by the external auditor to satisfy them that fraud and error were being prevented.
- 1.4.2 Any incidents of fraud require in depth investigation and use considerable resources to resolve. Any cost effective action to prevent instances of fraud will result in better use of resources.

1.5 Risk Assessment

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

1.6 Equality Impact Assessment

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

1.7 Policy Considerations

- 1.7.1 Crime & Disorder Reduction

1.8 Recommendations

- 1.8.1 Members are asked to **endorse** the responses to the questions set out at **[Annex1]**.

Background papers:

Council policies and records

contact: Richard Benjamin
Paul Worden

Councillor Vivian Branson
Chair of the Audit Committee

Members Assurance

Area	Question	Those Charged with Governance Response
Fraud	Do you have knowledge of any actual, suspected, or alleged fraud affecting the entity in the 2019/20 financial year?	There are no instances of internal fraud as far as we are aware and no other significant concerns in 2019/20 have been reported to Members. Frauds reported to Members in the main relate to council tax discounts and exemptions and housing benefit entitlement.
Laws and regulations	How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?	The Director of Central Services and Deputy Chief Executive fulfils the statutory Monitoring Officer role including the requirement to report any legislative breaches. Internal Audit considers compliance with legislation and statutory regulations in the work they undertake and report accordingly to Management Team and the Audit Committee. Assurance is provided by way of the Local Code of Corporate Governance which is ordinarily subject to annual review and the Annual Governance Statement. In addition, all Member decision items include a section to draw out any legal implications pertaining to the subject matter.
	Are you aware of any actual or potential litigation or claims that would affect the financial statements?	We are not aware of any actual or potential litigation or claims that could materially affect the financial statements.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

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 2019/20.

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 2019/20 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 2019/20 was effective, using the opinion definitions set out below.

Opinion	Definition
Good	The arrangements put in place by the Council provide substantial 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 reasonable 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 limited 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 no 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 2019/20 was Good.

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 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 2019/20 was Good.

Background papers:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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Summary of Measures to demonstrate the effectiveness of Internal Audit – 2019-20 Review

Measure	Finding
<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>A comprehensive annual internal assessment was undertaken in October 2019; the self-assessment established a number of areas regarding processes and practice where there was only partial compliance. An action plan was taken to the January Audit Committee and progress is being reported to the Committee in July. The majority of the actions have now been completed and Internal Audit is now in a position of 'Generally Conforming' with the PSIAS.</p> <p>Two area of development remain in relation to changes made to the Standards in April 2017 and was therefore assessed as Partially Conforms:</p> <p>Attribute Standard 1230 - Proficiency and CPD</p> <p>This Standard requires the review of skills and training needs to ensure Auditors keep learning and development up to date and pursue formal/informal learning opportunities. Although we externally contract some of our audit resource and evaluate their relevant knowledge and skill. Further work is required to formally review the skills and experience of the audit team and continue to develop TMBC employees.</p>

Summary of Measures to demonstrate the effectiveness of Internal Audit – 2019-20 Review

Measure	Finding
	<p>Performance Standard 2110 – Governance</p> <p>This standard states that <i>'The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes'</i>. Although the annual audit plans cover specific areas of governance, the standards include consideration of a review of ethics and values in the organisation, which has to date not been conducted for Tonbridge and Malling BC. We have introduced the reviewing of Fraud Risk Assessments as part of individual audit planning for 20/21. Inclusion of a specific review of ethics and values will be considered in annual planning for future years.</p>
The internal audit planning process, demonstrating that audit planning is risk-based and reflects the business objectives of the Council.	The annual audit planning exercise for the 2019/20 financial year used a risk-based methodology to ensure the most effective use of Internal Audit resource. Review of the 2019/20 Plan established that there was a good level of alignment to the key risks. The same approach has been taken to the annual planning for 2020/21
Customer Satisfaction survey results.	Customer satisfaction surveys are sent to client managers on publication of a final internal audit report. The results of surveys returned in 2019-20 to date gave an overall satisfaction measure of 94% (based on 5 surveys received at time of reporting). This is an improvement on 2018-19 where satisfaction was 92%. Surveys are being reviewed to identify any key themes and actions to address issues identified will be undertaken during 2020/21.
Key performance indicator outturns.	<p>A set of four performance measures was used to assess the effectiveness of the Internal Audit team in achieving a quality Internal Audit Service for 2019-20. As reported in the Annual Internal Audit and Counter Fraud Report 2019-20, during the year the team met three of the four Internal audit performance measures. For the remaining one:</p> <p>We had not achieved the target of 85% for the time between completion of audit fieldwork and the issuing of the draft report. This stands at 50% for the year and is due, in the majority of cases, to current processes for reviewing audit files and reports before issue. This meant that a number of audit reports that fell outside</p>

Summary of Measures to demonstrate the effectiveness of Internal Audit – 2019-20 Review

Measure	Finding
	of this KPI by a few working days. Reviews of this process will take place for 2020/21
The extent to which reliance can be placed on the work of internal audit by the external auditor.	In their January 2020 Progress report it states that Grant Thornton will review the Internal audit Report of core financial systems. However, nationally, External Audit no longer place reliance on the work of Internal Audit

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT AND FRAUD PLAN 2020/21

This report seeks Members approval of the Internal Audit and Fraud Plan for the year 2020/21.

1.1 Introduction

1.1.1 The professional standards for Internal Audit require the Chief Audit Executive to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals. A risk-based Internal Audit Plan has been prepared for the 2020/21 financial year to fulfil this requirement. The Plan as a whole must enable the Chief Audit Executive to provide an overall opinion on risk management, governance and control at the end of the financial year.

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

1.2 Internal Audit and Fraud Plan 2020/21

1.2.1 A copy of the proposed Internal Audit and Fraud Plan for 2020/21 is attached at **[Annex 1]** of this report. This is intended to provide Members with a clear picture of how the Council will make use of its Internal Audit and Fraud Team, reflecting on all work to be undertaken by the Team during the financial year.

1.2.2 The Plan has been developed using a risk-based approach. Significant risk areas and priorities have been identified through a risk assessment which included review of the Strategic and Service risk registers, analysis of the wider environment, use of our own organisational knowledge and discussions with Service Heads and Directors both individually and collectively as part of Service Management Teams.

1.2.3 Relevant links to the Strategic Risk Register are shown within the Plan itself. Members will note that not all audits are linked to a specific risk; some are intended to provide assurance over core areas (for example financial audits) and some are included as the Council is undertaking change programmes. In line with the nature and scope of Internal Audit as set out in the Internal Audit Charter, it is

important that overall, the Plan balances all of these assurance and consultancy needs.

- 1.2.4 All of the audits in 2020/21 will consider both risk management and performance management; at the end of the year the findings will be compiled into a themed report. This will contain an overall opinion and any recommendations for improvement. The Fraud Risk Assessments that have been undertaken during 2019/20 in conjunction with Service Management Teams will also be taken into account; this is to ensure that relevant risks have been identified and that stated controls are working as intended.
- 1.2.5 Whilst the Plan is drawn up annually, it is important that the Plan is dynamic and able to respond to key risks. Therefore, it will be kept under review to ensure continued relevance and alignment to organisation risks and priorities. Any proposed changes will be brought back to a future meeting for Audit Committee to approve.
- 1.2.6 The Plan shows the number of days that have been estimated for each audit. The Internal Audit function is currently resourced through a mixture of in-house, seconded and contract staff and it is proposed to retain this arrangement for 2020/21. Whilst contracted days are yet to be finalised, there are currently sufficient resources available (with the skills required) to deliver the Plan as it stands. However, there is no built-in contingency time and therefore, should organisational needs change, it will be necessary to buy in additional resource or to re-prioritise existing resource.
- 1.2.7 The proposed Plan has been reviewed and endorsed by Management Team.

1.3 Legal Implications

- 1.3.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake effective internal audit of the effectiveness of risk management, governance and control processes.
- 1.3.2 The Council also has a legal duty under s151 of the Local Government Act 1972 and the Accounts and Audit Regulations to ensure that there are appropriate systems in place to prevent and detect fraud.
- 1.3.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.4 Financial and Value for Money Considerations

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

- 1.4.2 Fraud prevention and detection is an area subject to central government focus with initiatives such as the National Fraud Initiative and Fighting Fraud Locally Strategy. The message coming from these initiatives is that effective fraud prevention and detection releases resources and minimises losses to the Council through fraud.

1.5 Risk Assessment

- 1.5.1 The Internal Audit and Fraud Plan is intended to ensure that the work of the Internal Audit and Fraud Team is effectively directed. For this very reason, the process for preparing the Plan is itself informed by an assessment of the risks and audit needs of the Council. Members' endorsement of the Internal Audit and Fraud Plan for the year 2020/21 ensures that the status of the Plan is maintained.

1.6 Equality Impact Assessment

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

1.7 Recommendations

- 1.7.1 Members are asked to **consider** and subject to any amendments required to **approve** the Internal Audit and Fraud Plan for the year 2020/21.

Background papers:

Contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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Audit Title	Indicative Planned Days	Indicative Quarter	Assurance/ Consultancy	Directorate	Cross ref to Strategic Risk Register	Rationale for inclusion/High-level Scope
Training	12	2	A	CS / All	SRR06	Review of training arrangements to include identification of training needs, recording of training undertaken and links between objective setting and training. The audit will also consider pressures on the training budget and the prioritisation of need.
Community Safety Unit	12	3	A	CS	SRR14	Last reviewed by Internal Audit in 2015/16. The audit will be a 'business as usual' review to encompass identification of priorities, effective use of resources, delivery of objectives and effective partnership working.
Customer Services Review	10	Ongoing	C / A	CS	Change programme	A new model is currently being scoped and a call centre being piloted around the One Council mantra. IA to work alongside the service on an embedded assurance model, attending key meetings (OSG) and ensuring risks are managed with controls in place from the outset.
Sickness Management	15	2	A	CS / All	Core Assurance	
Recruitment and Retention	8	1	C	CS / All	SRR06	Review to provide assurance on the effective management of short and long term sickness to mitigate risks to staff welfare and service delivery.
			A	CS / All	SRR07	Review of the adequacy of the Council's arrangements in place to recruit and retain for key posts.
Health and Safety	10	2				Not reviewed by Internal Audit since 2017/18. The scope of this audit will include a focus on Accident Reporting as this has not been previously included. The audit will also include a focus of risk assessments in relation to returning to office based working post Covid-19 lockdown.
Housing Allocation Scheme	10	Q1 and 2	C	PHEH	SRR15	Consideration of other assurance mechanisms in place will be made and the extent to which IA may place reliance on these in the future. A revised draft allocation scheme is planned for August 2020. Internal Audit will undertake advisory work in the lead up to implementation to ensure that processes are designed with appropriate controls in place to manage associated risks.
s106 - Developer Contributions	12	4	A	PHEH	Core Assurance	This was last audited in 2017/18 and received Limited assurance. Since then, there have been legislation changes effective from 01/09/2019. The review will consider compliance with legislation and processes for allocation and monitoring of spend.
Local Plan	12	2 or 3	A	PHEH	SRR05	TMBC are currently in the process of producing the Local Plan. The audit will provide assurance on the robustness of the process followed to produce the Plan.
Waste Contract	10	3	A	SSLT	SRR19	Post implementation review of the new waste contract, to include adequacy and effectiveness of contract management procedures. Internal Audit was due to undertake a consultancy review in 2019/20 but in discussions with the Director this was deferred to an assurance piece of work in 2020/21. The contract is significant for the Council. We may also consider controls around the charging for garden waste service.
Parking	15	Q1 and 2	A	SSLT	Core Assurance	This audit will be a focused review. It will consider the following on a risk basis: PCN appeals process, residential permit application process, post implementation review of new system and new fees / parking charges and the Council's review of free for use car parks.
Business Continuity	12	3 / Ongoing	A / C	SSLT / All	SRR10 & 12	This will follow on from the 2019/20 audit and will include follow-up of recommendations raised for the BC and the Disaster Recovery audits, a deep dive into service level BCPs and review lessons learnt from Covid-19. Internal Audit will also attend the Council-wide BCP Development Group where required.
Tree Strategy	8	1	A	SSLT	SRR07	Review to consider planning, undertaking and follow-up / completion of actions from inspections.
IT Governance	12	4	A	F&T	SRR10	A holistic review of the adequacy and effectiveness of IT governance within the organisation. It will include decision making routes, budgets, approach to project management and reporting arrangements.
Council Tax Reduction Scheme	10	3	A	F&T	SRR15	There will be changes to CTRS for 2020/21 (income banding). The review will provide assurance post-implementation on the new scheme, and the adequacy and effectiveness of controls in place to manage the scheme, including fraud risks.
Citizens Access System	10	3	A	F&T	Change programme	This will be a post implementation review of the new online system for council tax, business rates and benefits. The audit will seek to provide assurance on realisation of expected benefits and management of associated risks. The timing of this audit and CTRS will be completed so as not to overlap.
Housing Benefit Claims	15	1	A	F&T	SRR15	A core area for cyclical assurance. The Counter Fraud Housing Benefit policy was recently deleted (Jan 2020) as the procedures listed were management controls rather than policy. The policy element was subsumed within the overarching Counter Fraud policy. This review would consider the adequacy and effectiveness of controls in place to ensure that claims are processed accurately, fairly and timely and to minimise the risk of fraud and error.
General Ledger	12	2 or 3	A	F&T	Core Assurance	Core financial system not recently reviewed by Internal Audit.
Corporate Credit Cards	8	2	A	F&T / All	Core Assurance	Core financial system not recently reviewed by Internal Audit.
Risk Management	5	Ongoing	A	All	Core Assurance	We will consider risk management as part of all of our audits in 2020/21 and will produce a short themed report at the end of the year.
Performance Management	5	Ongoing	A	All	Core Assurance	We will consider performance management as part of all of our audits in 2020/21 and will produce a short themed report at the end of the year.
Follow Ups	10	Ongoing				Follow up of recommendations raised.
	233					
<u>Proactive fraud activity</u>						
National Fraud Initiative	100	Ongoing		F&T/All		Time for sifting results to inform whether referral to DWP and/or investigation by TMBC is required - results of the annual SPD to electoral roll match were received in December 2018 and results of the biennial exercise were received in January 2018/19 - work is ongoing
KIN and other data matching/analysis to reduce fraud	20	Ongoing		F&T/All		Time for attendance at KIN Board as well as sifting results of data matches to inform whether investigation or other action is required and document outcomes, including savings. Will also include review of potential internal matches to detect and prevent fraud and any related data quality issues
						Further work will also include the review of Business Grants issues in response to Covid-19
Proactive - other	20	Ongoing		All		TBC but will include counter fraud awareness week and follow up of the counter fraud risk assessments.
Provision of training, advice and increasing fraud awareness	10	Ongoing		All		Rolling programme of fraud awareness training and ongoing provision of advice as required
Single Point of Contact for DWP investigations	40	Ongoing		F&T		To fulfil the role required by DWP - dealing with requests from the DWP for information held by TMBC to support DWP investigations of potential benefit fraud
	190					
<u>Allowances for work unknown at the time of planning</u>						
Advice and information Investigations	10	As required		All		Allowance for the provision of advice in relation to governance, risk or controls during the year.
	175	Ongoing		All		Includes investigation of potential fraud in relation to NNDR and Council Tax discounts and exemptions, Council Tax Reduction Scheme, joint working with DWP and investigating potential fraud in relation to other Council services as well as any investigations arising from data matches from NFI and KIN outputs

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT CHARTER

The purpose of the report is to seek approval of the Internal Audit Charter.

1.1 Introduction

1.1.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory for internal audit practice in the public sector. Under the PSIAS, the purpose, authority and responsibility of Internal Audit must be formally defined in a Charter.

1.1.2 The Charter is reviewed periodically and is then presented to Management Team and the Audit Committee for approval. The Charter was last approved in January 2019.

1.2 Internal Audit Charter

1.2.1 The Charter defines the purpose, authority and responsibility of Internal Audit within the organisation and affirms Internal Audit's ability to operate in accordance with mandatory elements of the Professional Practices Framework. It also confirms our independence, defines reporting arrangements and authorises our access to all systems, records, personnel and assets that we deem necessary in order to undertake our work.

1.2.2 For 2020-21, the Charter has been reviewed comprehensively against both the PSIAS and guidance provided by the Institute of Internal Auditors; some changes have been made as a result. The Charter is attached at **[Annex 1]**.

1.2.3 The Charter was approved by Management Team on 10 March 2020; final approval rests with the Audit Committee.

1.3 Legal Implications

1.3.1 Section 151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of their financial affairs". Further to this, the Accounts & Audit Regulations require a relevant body to "undertake an effective internal audit to evaluate the effectiveness of its risk management,

control and governance processes, taking into account public sector internal auditing standards or guidance.”

- 1.3.2 The Internal Audit Charter is therefore an integral part of ensuring compliance with these requirements.

1.4 Financial and Value for Money Considerations

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

1.5 Risk Assessment

- 1.5.1 The Internal Audit Charter establishes the purpose, authority and responsibility of the Council’s internal audit function. It is, therefore, vital that the Council periodically reviews the Charter to ensure that the internal audit function is effective in delivering its responsibilities and that the Charter itself is compliant with mandatory and associated guidance.
- 1.5.2 The Internal Audit Charter has been prepared with due consideration to proper practice, as set out in the PSIAS. It is, therefore, considered that adequate action has been taken to minimise the risk that external assessment could consider the Charter to not meet proper practice.

1.6 Equality Impact Assessment

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

1.7 Recommendations

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

Background papers:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive



INTERNAL AUDIT CHARTER

Purpose and mission

The purpose of TMBC's Internal Audit section is to provide independent, objective assurance and consulting services designed to add value and improve TMBC's operations. The Internal Audit activity helps TMBC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Authority

The Accounts and Audit Regulations specifically require relevant bodies to "undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance." As such, compliance with the Public Sector Internal Audit Standards and the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA) is mandatory.

The Standards set out requirements for the work of Internal Audit to be led by a Chief Audit Executive (CAE); at Tonbridge & Malling Borough Council this role is fulfilled by a shared service arrangement with KCC. The Standards also set out the roles and responsibilities of 'senior management' and 'the board'; at Tonbridge & Malling 'senior management' is defined as the Council's Management Team and 'the board' is defined as the Audit Committee.

The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's functions, records, physical properties, and personnel (officers and Members) that it deems necessary in order to undertake its work. All employees are required to assist the Internal Audit activity in fulfilling its roles and responsibilities. The Internal Audit activity will also have free and unrestricted access to the Audit Committee, including in private meetings without management present where relevant.

Professionalism and Professional Standards

The Internal Audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework along with the Application Note to the Standards produced by the Chartered Institute of Public Finance & Accountancy (CIPFA). The mandatory elements constitute the definition of Internal Audit, the Core Principles, the Code of Ethics and the Standards for the professional practice of Internal Auditing. The Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life, and will adhere to the Council's policies and procedures and the Internal Audit Manual.

Organisational Relationships

The CAE will report functionally to the Audit Committee and administratively to the Chief Financial Services Officer.

The role of Audit and Assurance Manager is fulfilled by way of a shared resource with Kent County Council (KCC). KCC will provide a suitably qualified and experienced person to fulfil this



INTERNAL AUDIT CHARTER

role in agreement with the Director – Finance and Transformation. Changes to personnel will be reported to the Audit Committee and Management Team.

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

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

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

Relationship with the Monitoring Officer

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

Relationship with the Chief Executive & Head of Paid Service

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

Relationship with Management Team

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

Relationship with the Audit Committee

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

Relationship with External Audit

The CAE will liaise with External Audit to:

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

In particular the CAE shall:

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



INTERNAL AUDIT CHARTER

Independence and Objectivity

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

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Auditor's judgement. This does not preclude Internal Audit from providing consultancy services to areas of the organisation that it may later audit; threats to independence at individual engagement level will be managed by the CAE through, for example, consideration of rotation.

The CAE has accountability for the Counter Fraud section and, as such, cannot provide independent assurance over this function. Instead, there is a tri-Authority peer review agreement in place between TMBC, KCC and Medway Council. These Councils will arrange periodic reviews amongst themselves, the outcomes of which will be reported to Management Team and the Audit Committee.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements. Each member of the team will make a declaration of any interests (or potential interests) or of 'no interest' on an annual basis and any interests will be taken into account when allocating audit work across the team. The CAE will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity. The CAE will also disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and communicating results.

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

Scope

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. The scope of internal audit includes all activities and services provided or undertaken by TMBC. This extends to where these are provided by third parties, under contract or other agreement, where TMBC provides services on behalf of other organisations or where TMBC works in partnership with other organisations. Internal audit assessments include evaluating:

- Whether risks relating to the achievement of TMBC's strategic objectives are appropriately identified and managed.
- The consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.



INTERNAL AUDIT CHARTER

- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Resources and assets are acquired economically, used efficiently and protected adequately.

Responsibility

The CAE is responsible for:

- Submitting to Audit Committee, at least annually, a risk-based internal audit plan for review and approval.
- Reviewing and adjusting the internal audit plan as necessary in response to changes in TMBC's risks, operations, programmes, systems, and controls.
- Communicating to Management Team and the Audit Committee the impact of resource limitations on the internal audit plan and any significant interim changes to the internal audit plan.
- Ensuring each engagement of the internal audit plan is executed in accordance with professional standards.
- Following up on engagement findings and corrective actions, and reporting periodically to senior management and the Audit Committee any corrective actions not effectively implemented.
- Ensuring the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensuring the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensuring trends and emerging issues that could impact TMBC are considered and communicated to senior management and the Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establishing and ensuring adherence to policies and procedures designed to guide the internal audit department.
- Ensuring conformance of the internal audit activity with the *Standards*

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

Based on its activity, Internal Audit is responsible for reporting significant risk exposures and control issues identified to the Audit Committee and to the Council's Management Team, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

The CAE is also responsible for the Council's counter fraud activity including maintenance of the Anti-Fraud, Bribery & Corruption Policy which sets out arrangements for all suspected or detected fraud, corruption or impropriety to be reported to Internal Audit.



INTERNAL AUDIT CHARTER

Partnership Working

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

The Internal Audit team based at Tonbridge & Malling Borough Council consists of the Audit and Assurance Manager, one part-time Senior Auditor, Fraud / Audit Assistant and audit contractors as and when required to deliver the annual Plan. The partnership working arrangement with Kent County Council provides the opportunity for Internal Auditors at both councils to conduct audits at either council where it is practical and beneficial to do so. The Internal Auditor assigned to each audit review is selected by the Audit and Assurance Manager based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly.

Internal Audit Plan

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

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

Reporting and Monitoring

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

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

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

Internal Audit reports quarterly to the Audit Committee on Internal Audit's progress against the Plan including summaries of reports finalised in the relevant time period. Results of the follow up programme are reported twice yearly.



INTERNAL AUDIT CHARTER

Quality Assurance and Periodic Assessment

The internal audit department will maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The Programme will include an evaluation of internal audit's conformance with the Standards and of whether internal auditors apply The IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The CAE will communicate to the Council's Management Team and the Audit Committee on the Internal Audit activity's Quality Assurance and Improvement Programme, including any non-conformance with the Standards, results of annual internal assessments of the effectiveness of the system of internal audit and external assessments conducted at least every five years and key performance indicators agreed by the Audit Committee.

Signed by:

Chief Audit Executive (CAE)

Chair of the Audit Committee

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Management Team

Part 1- Public

Matters for Information

1 MANAGEMENT TEAM ASSURANCE ON COMPLIANCE WITH INTERNATIONAL STANDARDS ON AUDITING

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

1.1 Assurance

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

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

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

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

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

1.4 Risk Assessment

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

Background papers:

contact: Richard Benjamin

Council policies and records

Paul Worden

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

Management Team Assurance

Area	Question	Management Response
<p>Fraud</p>	<p>Please provide your assessment of how your financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.</p>	<p>We consider that the potential for material misstatement within the financial statements due to fraud is negligible. This assessment is based upon the use of budgetary control, risk management and significant peer review by senior officers as part of the closure of accounts process. No material risks have been identified for 2019/20.</p>
	<p>What are your processes for identifying and responding to the risks of fraud. Have you identified any specific risks of fraud and/ or areas where the risks of fraud likely to exist?</p>	<p>The duty to ensure that there are appropriate systems in place to prevent and detect fraud is discharged in part by the Council's Constitution including its Financial Procedure Rules and Contracts Procedure Rules. The Council acknowledge the inherent risk of fraud occurring within the organisation, however, while there are systems recognised as being more at risk of fraud than others no specific fraud risks have been identified. The zero tolerance culture of the organisation towards fraud is reinforced by the Anti-Fraud, Bribery and Corruption Policy supported by a Whistleblowing Policy with outcomes reported to Members. Any reported allegations of fraud will be investigated and dealt with according to the relevant policies. As part of the planning process for the Annual Internal Audit Plan and for individual engagements, the Chief Audit Executive and individual auditors consider the risk of fraud and where appropriate, this will be included in scope. The subsequent reviews result in an assurance level being given to Management and Members for each audit and this is used by the Chief Audit Executive to give an overall assurance level to Members in their Annual Report. In addition, all reports and recommendations are reported to relevant Chief Officers and management with comprehensive follow-up procedures that monitor improvement. Management is required to consider fraud and error within their services as part of the risk management process and to report any concerns of fraud for investigation. Under the Anti-Fraud, Bribery and Corruption Policy, management is responsible for putting into place appropriate controls to manage those risks. Additionally, in 2019/20 the Internal Audit and Counter Fraud section has undertaken fraud, bribery and corruption risk workshop sessions with Service Management Teams and these have resulted in fraud risk assessments for each area. No instances of alleged or suspected internal fraud were raised</p>

Area	Question	Management Response
Fraud		during the year 2019/20. The Council works with partners, e.g. the Cabinet Office and Department for Work and Pensions to identify and investigate fraud including the Housing Benefit Matching System that uses data matching in order to identify incorrect benefit payments.
	How do you communicate with those charged with governance regarding your processes for identifying and responding to the risks of fraud?	Anti-Fraud and supporting policies are reviewed and agreed by Members on a regular basis. Any serious breaches are reported to Members with action taken to improve control weaknesses that were identified. Update on the work of both the Internal Audit function and Counter Fraud function is a standing item on the Audit Committee agenda. Members are updated on exercises such as the National Fraud Initiative and action taken to address any issues raised.
	How do you communicate with your employee regarding business practices and ethical behaviour?	In order to make sure that all staff are fully aware of the zero tolerance culture of the organisation to fraud the Anti-Fraud, Bribery and Corruption Policy and Whistleblowing Policy are circulated to staff annually via "Net consent". This is software that requires staff to read policies and acknowledge understanding of them before they can log on to the Council's computer systems. In addition, ran an email awareness campaign as part of the Counter Fraud Awareness Week in November 2019. All staff are required to abide by the Officer's Code of Conduct and this is provided on appointment to the Council. Housing Benefits and Internal Audit and Counter Fraud staff are also required to sign annual declarations of interest.
	Do you have knowledge of any actual, suspected or alleged fraud affecting the entity?	There are no instances of internal fraud as far as we are aware and no other significant concerns in 2019/20 have been reported to Management Team.
Related parties	Please list your related parties, highlighting any changes from the prior period.	There are no changes in respect of related parties from the prior period; Central Government; elected Members; Chief Officers; and appointment of Councillors to local outside bodies.

Area	Question	Management Response
Related parties	Please provide a summary of the nature of the relationships between the entity and these related parties.	Central Government is responsible for the statutory framework within which the Council operates, provides grant funding and prescribes the terms of many of the transactions that the Council has with other parties. All elected Members and Chief Officers are required to disclose where they or any member of their family or household has an interest in an entity that has had transactions with the Council. The Council make a number of appointments to local outside bodies and some of these bodies receive grant aid.
	Has the entity entered into any transactions with these related parties during the 19/20 financial year, if so, what was the type and purpose of the transaction(s)?	The Council has received both general and specific Central Government grant funding for its day to day business activity; and grant aided a number of charitable and voluntary and community organisations.
Going Concern	Is the going concern basis of accounting a fundamental principle in the preparation of your financial statements?	Yes.
	Has a preliminary assessment of the entity's ability to continue as a going concern been performed?	Going concern status is assessed and maintained through the use of a Medium Term Financial Strategy covering a rolling ten-year period. The aim of the Strategy is to give us a realistic and sustainable plan that reflects the Council's priorities. The assessment of going concern will also take into account the Council's status as a tax-raising body.
	Have you identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern? If so, what are you plans to address them?	No events or conditions identified that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern. The Covid-19 pandemic however is likely to have a significant adverse impact on the Council's reserve balances as a result of an anticipated marked reduction in council tax receipts, a significant fall in fees and charges and investment income, etc. We will not know to what extent for some time, but may be depleted such that the scale and timing of the savings targets set out in the medium term financial plan will need to be revisited.

Area	Question	Management Response
Going Concern	What is your basis for the intended use of the going concern assumption? Do events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern?	Use of the Medium Term Financial Strategy covering a rolling ten-year period. Supplemented by the fact that the Council holds adequate levels of reserves that could be used in the event of emerging budgetary pressures over and above that assumed in the short term to allow for more detailed plans to be considered and actioned. See response above in respect to the Covid-19 pandemic.
	If applicable, please document your basis for concluding that the going concern basis of accounting is not a fundamental principle in the preparation of the financial statements.	Not applicable.
Litigation & claims	Are you aware of possible litigation and/ or claims which may give rise to a risk of material misstatement? How does the Council determine its compliance with applicable legal and regulatory frameworks?	We are not aware of any actual or potential litigation or claims that could materially affect the financial statements. The Director of Central Services and Deputy Chief Executive fulfils the statutory Monitoring Officer role including the requirement to report any legislative breaches. Internal Audit considers compliance with legislation and statutory regulations in the work they undertake and report accordingly to Management Team and the Audit Committee. In addition, all Member decision items include a section to draw out any legal implications pertaining to the subject matter.
Accounting estimates	How do you identify transactions, events, and conditions that may give rise to the need for accounting estimates to be recognised or disclosed in your financial statements?	This is part of the closure of accounts process and in recent years included business rates appeals and embedded leases.

Area	Question	Management Response
Accounting estimates	Are there any changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates?	None to the best of our knowledge.
Laws and regulations	Are you aware of any non-compliance with any laws and regulations?	None to the best of our knowledge. There have not been any instances of non-compliance with any laws and regulations reported to the Monitoring Officer during the year other than GDPR notifications in his role as the Council's Data Protection Officer.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

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 2019/20

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 2019/20 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2019/20.

1.1 Introduction

1.1.1 The Accounts and Audit Regulations 2015 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.

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 Annual Opinion is derived from evaluation of the outcomes of Internal Audit work with specific emphasis upon the following key factors:

- Assurance Opinions from audit assignments;
- The level of implementation by management of agreed actions to improve internal control and the management of risk.

1.2.4 The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20, full details of which are provided in this report. While all audit results are considered, including the outcomes of any consultancy work, any other reliable sources of assurance are identified and, where appropriate, considered when arriving at an overall opinion.

1.2.5 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 **adequately** contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2019/20.

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 2019/20, 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. Progress against these recommendations during 2019/20 has been good.

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, who in turn reports to the Head of Internal Audit (Chief Audit Executive).
- 1.3.2 The Internal Audit and Counter Fraud Establishment comprises 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 and Chief Audit Executive post has been secured by way of a shared management arrangement with Kent County Council.
- 1.3.3 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 2019/20 was approved by this Committee on 1 April 2019. 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 Due to the number of audit that were carried over from 2018/19 to the beginning of this year, progress against the 2019/20 plan started slowly. Good progress has been made during the year, but has again, at the later end of the year been impacted slightly by the Covid-19 lockdown. Of the original 20 audits (19 Assurance (A) and 1 Consultancy (C)) on the 2019/20 plan:

- Two audits were added to the Plan during the year – Delivery of Corporate Strategy (C) and Complaints Procedures (C).
- Two audits were cancelled and replaced by the two above – Corporate Governance (A) and Waste Contract (C)
- One Audit was completed as Consultancy (C) which was previously Assurance (A) – Budget Setting and Monitoring.
- One Audit had a reduced scope due to pressures associated with Covid-19 lockdown. The review of Homelessness subsequently only included the follow up on actions from the previous audit.

1.4.5 Of the revised total of 20 audits, three of which were consultancy, at the time of writing the team have completed 18 audits (both assurance and consultancy), with a further one audit at draft report stage. The final piece of work remains in progress, having been ongoing through the year as part of other audit engagements and will now form a themed report when complete.

Therefore, this represents 91.7% delivery of the amended Plan including Consultancy against a target of 90%. 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 A summary of the current status of audit work for 2019/20 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 2019/20.

1.5.3 Ninety nine recommendations were due for implementation in 2019/20; 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 2019. Progress is as follows:

- 46 have been closed as implemented
- 9 were closed due to being superseded by subsequent audit work of changes in services
- 5 were 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.
- A further 8 potentially closed but Internal Audit awaiting additional evidence from the service
- 4 were part of full follow-up audits reported separately.
- 27 are partially implemented, in progress and/or have agreed, revised implementation dates.

Having assessed the risk of extending these dates there are no concerns to raise. Therefore, in 2019-20, 73% of recommendations had either been implemented, partially implemented or closed.

- 1.5.4 Audit recommendations made from assurance work undertaken in 2019/20 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.
- 1.5.5 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 2019/20 included provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work include on the Complaints Procedures, Delivery of the Corporate Strategy and Forecasting and Budget Monitoring **[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 Training of the one Senior Internal Auditor was undertaken during the year. Although this totalled the planned 5 days allocated for Continuing Professional Development (CPD), there is a need to conduct a skills and experience assessment on the service to inform future requirements for CPD and the approximate 100 days of outsourced contractor 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.
- 1.8.2 During the year, a detailed Self-Assessment has been undertaken of the Internal Audit function. No instances of non-conformance have been identified but a number of areas have been assessed as 'Partially Conforms'. An action plan was created to address these areas and was presented to the Audit Committee in January. An update on the progress against this action plan is at **[Annex 3]**.

- 1.8.3 An External Quality Assessment (EQA) should be conducted at least every 5 years. The last EQA was undertaken in 2016 where the overall opinion was that Internal Audit “Generally Conforms” to the PSIAS. This will mean that the next EQA will be due in 2021. The format and provider of this assessment will be discussed with Audit Committee prior to the review taking place.
- 1.8.4 The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. For 2019/20, the team has achieved or exceeded the target set for three of the four Internal Audit indicators measured. At the Committee in January 2020, new audit and fraud KPIs were approved to be implemented for 2019/20. Actual performance of the team against these measures is provided at **[Annex 4]**.

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. It must be noted, however, that according to the PSIAS it is the responsibility of Tonbridge and Malling Council to maintain an effective Internal Audit activity.
- 1.9.2 The organisational independence of the Internal Audit activity has been achieved during the year through direct interaction with the Audit Committee and the Audit Committee Chair.

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 2019/20

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 2019/20.
- 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 with a further 1,010 received and to date 1,553 have been closed with no further action and 143 have been closed with errors found, 143 have been opened to undertake further enquiries and 189 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 January 2020. There were 907 matches received, 651 have been closed with no further action required and 11 have been closed as errors resulting in underpayments totalling £4,744. This is money owed to the council. Of the remaining matches, 77 are subject to further enquiries and 168 have yet to be reviewed.
- 1.11.4 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 1,739 matches. To date 871 have been closed with no further action required. Of the remaining matches 868 have yet to be reviewed.
- 1.11.5 We also received a Council Tax to HMRC Household composition match in August 2019. There were 2,482 matches received of which 945 have been closed with no further action required, 2 have been closed with errors identified resulting in underpayments of £562. 38 are subject to further enquiries along with 1,497 yet to be reviewed.
- 1.11.6 Details of the NFI data matching exercises above are summarised in the table below.

SPD to Electoral Register	2019 Biennial	Council Tax to HMRC Household Composition	2020 SPD	2020 other Data sets	Total
Total Matches	2028	2482	907	1739	7156
Closed NFA	1553	945	651	871	4020
Closed Error	143	2	11	0	156

Closed Fraud	0	0	0	0	0
Further Enquiries	143	38	77	0	258
To open	189	1497	168	868	2722

- 1.11.7 The Kent Intelligence Network (KIN), a government funded partnership led by Kent County Council, has been in place since September 2016. The partnership's key aim is to prevent and detect fraud, reduce partner's fraud risk profiles and support development of fraud professionals in Kent. It delivers a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI.
- 1.11.8 The key focus area for 2019/20 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises. For Single Person Discount activity there has been an additional £14,294 in additional Council Tax liability being identified and £8,160 in future increased annual liability through the removal of Single Person Discounts.
- 1.11.9 In 2018, Kent Finance Officer Group (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 2019/20 was £64,923 with increased annual liability of £8,034.00, one case 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.
- 1.11.10 We have also identified through the KIN activity unrated business rates properties, this has seen an additional £236,008 in business rates being identified, increasing business rates income.
- 1.11.11 At its May 2020 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.
- 1.11.12 We continue to review areas of fraud risk and direct our work accordingly. In 2019/20, this has included:
- The progression of Service specific fraud, bribery and corruption risk assessments, briefings have been provided to each service management team along with a draft risk assessment for them to review and complete, however this work is due to be completed in 2020/21.

- Fraud awareness training to Customer Services to ensure as first points of contact for customers they are 'fraud aware'.
- An authority wide fraud awareness week that aligned with international fraud awareness week in November to raise awareness.
- The planned blue badge enforcement day in March 2020 has had to be deferred due to Covid-19 and will be included in the 2020/21 Fraud Plan.

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 2019/20, the Counter Fraud Team have closed 232 cases. A total of 337 referrals were received, 169 of which relate to NFI. There are currently 26 ongoing investigations. The total amount of income due as a result of investigations concluded in 2019/20 was £93,840.57 with increased annual liability of £96,579.36. Civil penalties (net) in the amount of £2,030.00 were also applied. **[Annex 5]** summarises the results of investigations concluded in 2019/20.

1.13 Counter Fraud Resources

- 1.13.1 The 2019/20 resource dedicated to Counter Fraud is 0.2 FTE management support provided under a secondment agreement with KCC, 1 FTE Counter Fraud Specialist and 0.8 FTE Counter Fraud Assistant.
- 1.13.2 The Counter Fraud Assistant is currently undertaking the 'Accredited Counter Fraud Specialist' qualification and has to date completed 3 of the 4 modules.

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: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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Audit Review Title	Current Status	Audit Opinion	Summary of Audit Findings
Risk Management	Draft Report	TBC	
Corporate Governance	Cancelled		Replaced by Delivery of Corporate Strategy
Page 149 Delivery of Corporate Strategy	Complete	n/a	<p>The Council has undertaken only a single review of its progress on delivery of the 2017-2019 Strategy. Unfortunately the review did not cover all of the aims and objectives set out in the original Strategy and has not been presented to a Committee. This means that the majority of Elected Members responsible for the approval of the Strategy are unaware of the progress being made by the Council in delivering the outgoing Strategy.</p> <p>The results of the 2017-19 review were not carried forwards into the new Strategy as the 2017-19 review only recorded what the Council has achieved over that period rather than assessing what it has achieved against the objectives in the Strategy itself.</p> <p>Our discussions have established that the draft 2020-2023 Strategy was developed and was then consulted upon internally with Senior Management and Services from across the Council being asked for input into the content of the proposed Strategy. In obtaining approval of the Strategy, Elected members have also had an opportunity to comment on the content of the proposed Strategy. Developing a draft strategy and then consulting on it internally is not in line with how other organisations develop their Corporate Strategies. Similarly, not undertaking an external consultation on new Corporate Objectives is also not in line with the stance taken by other similar organisations.</p> <p>3 Recommendations made.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 150</p> <p style="text-align: center;">Enforcement</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Adequate</p>	<p>At the time of audit testing, the Corporate Enforcement Policy had not been published on the TMBC website, and a number of services were not aware of its existence or content.</p> <p>The Council's Constitution requires all Chief Officers to notify the Monitoring Officer, S151 Officer and Chief Executive, in writing, of all officers which have been granted delegated authority to undertake enforcement duties. The Monitoring Officer and Chief Executive have a file detailing officer delegations from across the Council. However, the S151 Officer does not hold such a file and therefore delegations are not being held fully in accordance with the Constitution. Testing also identified six officers which undertake enforcement duties but are not listed in the file held by the Monitoring Officer.</p> <p>PACE refresher training was provided on 13/01/20 but not to all officers undertaking enforcement duties. No officers attended from Street Scene, Licensing or Parking.</p> <p>Enforcement activity is not specifically monitored to ensure compliance with the Corporate Enforcement Policy. However, enforcement activity is monitored in individual areas to ensure compliance with the relevant legislation and therefore by default the Corporate Enforcement Policy is also being complied with.</p> <p>Discussions with various service areas established that there are often times when it would be useful to have intelligence on other enforcement activity. At present, there is no officer working group in place as a forum for both sharing intelligence and best practice relating to enforcement. There are also currently no performance measures listed in the Corporate Enforcement Policy. Consequently the Council is unable to review and measure its performance against the Policy.</p> <p>5 recommendations raised, one rated as 'high'</p>
<p style="text-align: center;">General Data Protection Regulations</p>	<p style="text-align: center;">Ongoing</p>	<p style="text-align: center;">NA</p>	

<p style="text-align: center;">Business Continuity Plan including Emergency Planning resilience</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 151</p>	<p>Complete</p>	<p>Limited</p>	<p>The assurance rating is based on the BCP and ICT arrangements at the time of the audit, it is appreciated that both have since been tested. Disaster recovery arrangements are on the proposed 2020/21 Internal Audit Plan, where we will follow-up on recommendations made in both reports and review the effectiveness of the new arrangements.</p> <p>Roles and responsibilities for the BCP are adequately defined and communicated with specialist teams established to assist if required.</p> <p>In February 2019, the Management Team reviewed the draft schedule of mission critical and critical activities arising from service level plans and there was evidence that revisions had been made as a result of this review. However no subsequent formal Management Team approval of the BCP or of Service Level Business Continuity Directory (SLBCD) could be evidenced.</p> <p>The BCP and the SLBCD are stored in various locations. They are accessible on the server to appropriate staff and can be retrieved if the network is down through Resilience Direct, A list of TMBC staff who have a login was provided, which confirmed that all Duty Co-ordinators have one.</p> <p>Review of the Civil Contingencies Act 2004 and associated guidance confirmed TMBC are complying with some of its duties as a Category One responder. These include prioritising and risk assessing services, however, in some areas, such as exercising and reviewing plans, the Council is not compliant with the Act.</p> <p>In order for services to be recovered within the service recovery timescales (as agreed by the Management Team) the IT DRP should ensure systems can be restored in line with the Corporate BCP requirements.</p> <p>None of the plans have been exercised to date and at the time of the audit there were no formal plans to do so.</p> <p>7 recommendations raised, 4 rated as 'high'</p>
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<p style="text-align: center;">Land Charges</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 152</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Substantial</p>	<p>The overall objective of the audit has been to provide assurance on the adequacy and effectiveness of the procedures and controls in place around the Land Charges function.</p> <p>Finance officers were found to have suitably robust procedures in place for ensuring that income and expenditure relating to the Land Charges function is accurately collected for inclusion in the end of year Land Charges Trading Account which the Council is required to publish. However, costs associated with the provision of those searches has only been partially included in the Trading Account. This results in the accounts giving the reader the impression that the Council has made a considerable profit, when in fact it has made a small loss.</p> <p>Review of a sample of 20 searches was able to confirm that the correct fees are being charged and that accurate search information is being provided on a timely basis.</p> <p>Testing identified that there are no contingency arrangements in place for the Land Charges function. When both officers are in work, between them, they have sufficient capacity to deal with normal caseloads and continue to provide accurate searches in a suitable timescale. However, one officer is able to maintain normal levels of outputs for only a short period.</p> <p>The Maintenance of the Land Charges function and the Official Search of it will be transferring from the Council to HM Land Registry at some point in the future. Prior to the commencement of the transfer process, officers will be required to undertake a check on all data being transferred to ensure that it is correct and meets the Land Registry's data capture requirements. The work required for the transfer is likely to take a considerable amount of time, and therefore there is the requirement for planned programme and officer working group to be in place to ensure that the Council is prepared for the transfer</p> <p>3 recommendation raised.</p>
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<p style="text-align: center;">Facilities Management</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 153</p>	Complete	Adequate	<p>Property Services maintain a six year funded Building Repairs Reserves Expenditure Plan (BRREP) for planned works. Frontline, an online database, is used to record the works due for the year. This system generates reminder e-mails one month in advance of when works are due.</p> <p>The BRREP is reviewed and reported to the Management Team every 6 months and was last scrutinised in October 2019. This resulted in the inclusion, re-profiling and deferment of several works, which were reviewed by the Management Team to consider Council Priorities and subsequently approved. The BRREP includes a contingency for all sites for both works that may be arise following regular maintenance and servicing, as well as any ad-hoc reactive works required.</p> <p>There are adequate security arrangement in place for TMBC sites with CCTV and panic alarms installed where appropriate. Maintenance and servicing of CCTV systems is contracted out to Chroma Vision and undertaken annually.</p> <p>Fire panels at all TMBC sites are serviced on a quarterly basis which we evidenced for the Gibson building by review of the testing schedule, which has been implemented to incorporate all weekly, quarterly and annual tests of individual detectors and call points.</p> <p>Contract cleaning arrangements are in place for the Castle and Leisure Trusts; cleaning is dealt with in house for the Gibson building. Cleaning undertaken at the Gibson building is not recorded. We were informed that the cleaner in charge conducts visual checks which are not evidenced, therefore we cannot provide assurance that cleaning is carried out regularly or satisfactorily.</p> <p>There is a Corporate Complaints Procedure in place, to record complaints made by the public. Discussions with the Head of Buildings, Facilities and Administration established no relevant complaints have been received through the online form process. However there is no system to record issues raised by staff. Consequently, we are unable to provide assurance whether they are managed and resolved appropriately.</p> <p>4 recommendations raised with 1 rated as 'High'</p>
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 154</p> <p>Capital Projects</p>	<p>Complete</p>	<p>High</p>	<p>The main focus of the audit was to ensure that there is an effective and efficient evaluation and approval procedure for capital projects, and that robust procedures are in place to monitor both individual projects and the capital programme as a whole.</p> <p>There is a detailed Capital Strategy which is reviewed and approved annually. The Strategy gives clear guidance to officers on the criteria which capital projects must meet in order to be put forwards for approval. All of the projects tested were found to meet with the approved criteria.</p> <p>The approvals process was found to be well documented with potential projects being evaluated by officers and Elected Members before final approval by Full Council as part of the budget setting process.</p> <p>Sample testing confirmed that wherever practical, officers are ensuring that best value is achieved for the Council when appointing contractors or purchasing goods from suppliers. Similarly, projects are being well monitored from start through to completion and the Post Implementation Review (PIR) process was found to be working effectively.</p> <p>No recommendations were raised.</p>
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<p style="text-align: center;">Property – Asset Utilisation & Disposals</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 155</p>	Complete	Limited	<p>The overall objective of the audit was to provide an opinion as to the adequacy, effectiveness and reliability of the controls in place to manage the risks of operating the property management function of the authority.</p> <p>Internal Audit found examples of asset reviews that had been undertaken and presented to members to inform a decision on the future of these assets. The detail contained within these reviews was sufficient to enable an informed review to take place. Further, rents had been charged accurately in accordance with the details in the tenancy agreement.</p> <p>However at the time of fieldwork there was no coherent strategy to manage the portfolio as a whole; the most recent Asset Management Plan expired in 2011. Consequently, Council assets may not be managed in a way that meets wider Corporate objectives.</p> <p>Rent reviews had not been documented meaning that we are unable to provide assurance that all relevant reviews had been undertaken timely and to an acceptable quality.</p> <p>Three recommendations were made, two of which are high priority. All of the recommendations were accepted by management.</p> <p>3 recommendations raised, 2 were rated as ‘high.’</p>
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<p style="text-align: center;">Debtors – Debt Recovery – NNDR & HB</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Substantial</p>	<p>The overall objective of the audit was to provide assurance that the Council has adequate and effective controls in place to maximise debt recovery for NNDR and Housing Benefit overpayments. This includes ensuring that there is sufficient and accurate monitoring and reporting of debts and that debts are written off only after appropriate recovery processes have been exhausted.</p> <p>Debtors in our sample had been chased timely with appropriate escalating actions. All write offs had been appropriately authorised and only after reasonable attempts had been made to recover debts.</p> <p>Internal Audit identified that reports from enforcement agencies could provide more relevant detail and that some existing policies and procedures could be enhanced.</p> <p>Two medium and two low priority recommendations were raised; three of these were accepted by management and one was partially accepted.</p> <p>4 recommendation raised.</p>
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<p style="text-align: center;">Budget Setting and Monitoring</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 157</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">N/A</p>	<p>There are adequate procedures available to Budget Holders detailing the budget monitoring process, including available Integra reports to assist with detailed budget monitoring (although recommendations have been made later in this letter for the need to provide Integra training).</p> <p>Many Budget Holders relied on the Administration Manager to run detailed budget monitoring Integra reports, and to advise them on budget matters. It is felt Budget Holders should be aware of the financial position as they run the day to day service and have delegated responsibility. We evidenced instances where several spreadsheets were devised to monitor budgets outside of Integra.</p> <p>A sample of cost centres identified instances where estimates were revised, suitable justification was given on the completed return to Finance in all instances. It should be noted, this review did not confirm Management Team approval prior to the submissions to Finance.</p> <p>Budgets are profiled at the beginning of the financial year based on previous year's activity. Other than the revised estimates which are produced mid-year, Finance do not prepare detailed forecasts of expected spend. Internal Audit were informed that anticipated under/over spend forecasts for the year are produced for the Financial Planning and Control reports to FIPAB and MT (Corporate Monitoring Statements) however, this is a high level, rather than a detailed line-by-line forecast.</p> <p>High level analysis of a sample of cost centres identified examples which indicated budgets were going to be over/under spent. Upon further investigation, it became apparent it was not always an accurate reflection of the budget position. This was due to additional budget amounts being approved, which would not be reflected on Integra until the mid-year revised estimate budget process, with expenditure being incurred in the interim</p> <p>5 recommendations made.</p>
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<p style="text-align: center;">IT Security – Network and Access</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 158</p>	<p>Complete</p>	<p>Substantial</p>	<p>The overall objective of the audit was to provide assurance on the adequacy and effectiveness of the physical and environmental controls in place to keep ICT infrastructure and portable devices safe and secure. It included the arrangements in place for starters and leavers.</p> <p>Testing was undertaken between the list of persons with IT access and the list of users which have read the ICT Network policies on Net Consent where it was identified that around 33% of users have not read the ICT Security policies on NetConsent. Where these had been read, they were not the latest documents.</p> <p>Strong controls were found to be in place to protect important ICT infrastructure such as servers and any other equipment kept in the ICT server room.</p> <p>ICT staff maintain an accurate asset database which records which ICT devices are in circulation, who they have been issued to and where the devices are located. Similarly appropriate measures are taken to ensure that obsolete devices and hardware are properly disposed and provided with the necessary certification to confirm secure destruction of equipment.</p> <p>Users are made aware of (and sign to acknowledge) the requirements placed upon them when being issued with portable devices and the steps they need to take to maintain security of the device.</p> <p>There were 3 recommendations raised during this audit.</p>
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<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 159</p> <p style="text-align: center;">IT – Disaster Recovery</p>	Complete	Limited	<p>The Council is currently in the process of putting in place a Cloud based Disaster Recovery arrangement which would enable restoration of selected essential services within hours rather than weeks as is currently the case. However, at the time of the audit, this process was still at an implementation stage.</p> <p>Testing has identified that there are no offsite IT backup facilities to ensure the continuation of normal ICT functionality to services. Revenues and Benefits are the exception to this as they have an offsite system in place. Unfortunately, the Revenues and Benefits service requires access to other systems to run a normal level of service and consequently are still likely to suffer to an extent should the ICT system suffer an outage. At the time of the audit, no contingency arrangements are in place which can be used for the immediate restoration of services should there be a total loss of the current ICT infrastructure.</p> <p>The Corporate Business Continuity Plan (BCP) requires critical services to have ICT connectivity for a limited number of users of essential services within 24hrs. ICT cannot currently achieve those timescales for all essential services.</p> <p>Testing established that IT staff take regular backup copies of the data held on servers so that information can be restored. IT staff also have measures in place to securely store off-site copies of the data.</p> <p>3 'high' recommendations raised.</p>
<p style="text-align: center;">IT – New Strategy & Infrastructure</p>	Complete	Adequate	<p>This audit reviewed the planning process for the overarching IT Strategy and the Digital Strategy.</p> <p>In design, there are sufficient governance arrangements in place to enable approval and oversight of the strategy. However, we were unable to evidence that strategy design had followed a sufficiently robust process to enable a full consideration of options and risks and inform decision making. This had led to changes in strategy with some irrecoverable costs. There had also been no regular review / progress update to ensure the continued relevance of the strategy alongside delivery of the objectives contained within the strategy.</p> <p>Internal Audit raised 8 recommendations, 2 rated as high.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 160</p> <p style="text-align: center;">Food Safety</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Substantial</p>	<p>All policies and procedures are up to date, appropriately approved and easily accessible to staff.</p> <p>There is some pro-active work being carried out to make sure that new food premises are made aware that they need to register for food liabilities with the Council. Due to the information maintained on the system, there is no way to easily monitor timeliness of new inspections. It was also noted that food alerts for action are also not documented on the Uniform system.</p> <p>Officers have demonstrated in depth knowledge and have recorded accurately with clear instruction to the food premises on actions needed to improve their hygiene rating, although it was noted through testing that the Allergen information Form was often incomplete or left blank.</p> <p>Sufficient information is made publicly available through the inspection process and through the TMBC website. Testing showed where intervention needed to be taken, the timeliness of the interventions were considered mostly compliant.</p> <p>All enforcement action that was taken against the sampled food premises were proportionate to the risk posed to health and to the seriousness of any breach of law and officers demonstrated consistency</p> <p>At the time of the report the Food Safety Team are working to develop a system that will enable officers to work electronically, currently systems are heavily paper-based.</p>
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Public Health	Complete	Adequate	<p>The overall objective of the audit was to provide assurance that robust controls are in place to provide resilience against reductions in funding and to enable achievement of outcomes.</p> <p>Service Level Agreements (SLAs) for the One You Kent Service (OYK), both with the commissioning body (KCC), and for the work-stream TMBC commission out could not be evidenced as being agreed. The Team promote the service well and conduct outreach to engage with target groups, and there is evidence of effective partnership working.</p> <p>However, there are concerns over the completeness and accuracy of a number of reported KPIs, therefore we are unable to provide assurance that all of the objectives are being met. In addition, no evidence is retained to confirm staff have completed the required training, and participant consent to sharing data does not comply with General Data Protection Regulations.</p> <p>There were 8 recommendations and 3 rated as high.</p>
Housing – Reduction of Homelessness	Complete	N/A	<p>The audit reviewed the progress of the follow up actions identified in the previous audit, of which 6 out of 8 were implemented (awaiting further evidence) and the remaining 2 were in progress. Additionally, the audit was due to review the adequacy of plans to progress the options for potential temporary accommodation solutions. However due to demands placed on the team during the Covid-19 lockdown this area of scope was not covered.</p>

<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 162</p>	<p>Empty Properties</p>	<p>Complete</p>	<p>Limited</p> <p>While the Empty Property Protocol does not define roles and responsibilities for Empty Properties, it is written in such a way that indicates that Private Sector Housing officers are responsible for overseeing the process and maintaining records. Discussions with Private Sector Housing officers established that they have not been given clearly defined terms of reference from Senior Management Team detailing where to focus their limited resources, and therefore are still working, wherever practical, in accordance with the out of date Protocol which does not contain any deliverable objectives or measurable targets relating to empty properties. Similarly, Housing officers are at present only focussing their attention on empty properties which they have received complaints about and are not actively working to bring non problematic empty properties back into use.</p> <p>Other than placing posts on the Council Twitter account during Empty Homes week in September 2019, no further posts have been placed on the Twitter account to raise awareness of the assistance available to owners of empty properties. The Council does however have a section on its website relating to empty properties. Council Tax regularly mail out to empty home owners including all the assistance available through housing. In addition information is also included in annual Council Tax bills.</p> <p>There were 3 recommendation raised, 1 was rated as high.</p>
	<p>Waste Contract (Consultancy)</p>	<p>Cancelled</p>	
	<p>Follow-up Discretionary Disabled Facilities Grant</p>	<p>Completed under follow up checks</p>	<p>The audit reviewed the progress of the follow up actions identified in the previous audit, of which all are currently in progress</p>

<p style="text-align: center;">Complaints Procedures</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">N/A</p>	<p>Review of the Complaints Management System identified it is not being fully utilised and requires several significant improvements to enable it to operate as central system for handling all complaints.</p> <p>The high volumes of complaints tested the effectiveness of the Corporate Complaints Procedure, which was last updated in 2015, and found it not to be reflective of current processes. Notably, the expectation for the Service Complaints Officers to log all complaints received by telephone or email and subsequent correspondence onto the Complaints Management system is not being adhered to. In addition, the form it refers to for completion could not be located on Staffnet.</p> <p>The complaints procedure page on the Councils website provides different reporting options depending on the complexity of the complaint. Whilst this attempts to mirror the different stages in line with the current Corporate Procedure, encouraging complaints to initially be reported directly into services inbox could potentially cause issues with the ability to promptly identify complaints amongst day to day service requests and requires a duplication in effort to log the complaints onto the system.</p> <p>6 recommendations raised.</p>
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Definitions of Audit Opinions

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

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Internal Audit Action Plan – PSIAS Self-Assessment			
Standard	Actions	Accountable Owner	Target Date for Completion
Integrity and Objectivity	1. Profile – Attend Service Management Teams twice a year - to agree audit plan and for a mid-year up date. Further review and adjusting of the plan should take place during the year.	Chief Audit Executive	Complete
	2. Complete declarations of interest on an annual basis for all Internal Auditors and Fraud staff		Complete
	3. Consider a review of ethical behaviour in the organisation as part of the annual audit planning		Complete
Confidentiality	4. Ensure contractors have signed a GDPR agreement annually	Chief Audit Executive	Complete
Competency	5. Auditors to complete self-assessments after each audit to identify learning opportunities	Chief Audit Executive	Complete
1000 Purpose, Authority and Responsibility	6. Update Charter to ensure coverage of all core principles and reporting arrangements to the Committee and Management Team	Chief Audit Executive	Complete
	7. Refer to Fraud arrangements with Medway and KCC in Charter		
	8. Ensure the Charter is presented to Management team		
1110 Organisational Independence	9. Formally confirm the organisational independence of IA annually	Chief Audit Executive	Complete
1130 Impairment to Independence or Objectivity	10. Ensure that the audit manual or other policies makes detailed reference to conflicts of interest,	Chief Audit Executive	Complete

	including links to the Code of Conduct where required.		
1210 Proficiency and CPD (1230)	<p>11. Review skills and training needs to ensure Auditors keep learning and development up to date and pursue formal/informal learning opportunities</p> <p>12. Consider if IT specialism is required as part of the 2020/21 Audit Planning process</p> <p>13. Develop a process, including allocation of responsibilities and regular team updates, to ensure that Internal Audit keeps fully up to date with current trends, issues, risks etc.</p>	Chief Audit Executive	<p>July 2020</p> <p>Complete</p> <p>Complete</p>
1220 Due Professional Care	<p>14. Review, update and finalise the audit manual and roll this out to staff</p> <p>15. Ensure that planning document is completed fully for every engagement, including an assessment of risk.</p> <p>16. Review the use of CAATs, add note to Audit Manual, add section to planning document.</p>	Chief Audit Executive	<p>Complete</p> <p>Complete</p> <p>Complete</p>
1300 Quality Assurance and Improvement Programme (QAIP)	<p>17. Focus on quality at Jan Audit Committee to enable oversight. Take a schedule of internal and external assessments to the committee</p>	Chief Audit Executive	Complete

	<p>18. Review the QAIP using feedback from the IA team and stakeholder consultation, including the quality proforma for each engagement.</p> <p>19. Roll out the QAIP to the team</p>		<p>Complete</p> <p>Complete</p>
2020 Communication and Approval	20. Ensure that deviations from the Plan are properly explained and review how contingency is allocated and justified.	Chief Audit Executive	Complete
2050 Coordination and Reliance	21. Continue development of assurance mapping across TMBC	Chief Audit Executive	Complete
2070 External Service Provider and Organisational Responsibility for Internal Audit	22. Ensure service agreements with KCC and TMBC stipulate that TMBC are responsible for maintaining and effective IA activity	Chief Audit Executive	Complete
2110 Governance	<p>23. Consider the following governance work as part of Internal Audit Annual Planning:</p> <ul style="list-style-type: none"> • ethical assurance work • risk review embedded as part of each audit • Performance Management - embedded as part of each audit? 	Chief Audit Executive	Ongoing
2120 Risk Management	24. Ensure that Fraud risk is consistently considered at planning stage	Chief Audit Executive	Complete
2130 Control	<p>25. Document controls in place for each risk area through process mapping and planning stages</p> <p>26. Consider undertaking of consultancy of major change programmes</p>	Chief Audit Executive	<p>Ongoing</p> <p>Complete</p>

2200 Engagement Planning	27. Ensure reference to strategic objectives is made in each engagement	Chief Audit Executive	Complete
2210 Engagement Objectives	28. Consider the adequate criteria required to evaluate governance, risk management and controls, as part of audit planning.	Chief Audit Executive	Complete
2330 Documenting Information	29. Ensure retention period is agreed and stated in the Audit Manual.	Chief Audit Executive	Complete
2420 Quality of Communications	30. Review reporting process and recipients as part of review of Audit Manual. This must include retention of exit meeting notes.	Chief Audit Executive	Complete
2450 Overall Opinions	31. Within Annual Report, ensure clarity around how the overall opinion has been determined. This should include how each individual opinion links through to documented risks. Including strategies and objectives	Chief Audit Executive	Complete
2600 Communicating the Acceptance of Risks	32. Where issues are not accepted and the residual risk remains unacceptable then there should be inclusion in the reporting to Audit Committee	Chief Audit Executive	Complete

Internal Audit and Fraud Key Performance Indicators 2019/2020

KPI	Target	Performance
Customer		
Client satisfaction surveys (Fraud) - % positive responses	90%	100%
Client satisfaction surveys (Audit) - % positive responses	90%	94%
Internal Process and Quality		
Outcome of annual self-assessment/EQA - Compliance with Public Sector Internal Audit Standards		93% Generally compliant 7% Partially Compliant
Audit Plan completion - % completion by financial year-end	90%	91.7%
Fraud Plan completion - % completion by financial year-end	90%	Not Captured
NFI Progress - % processed against target	90%	85%
Time from end of fieldwork to Draft Report – % within 10 working days	85%	50%
Time from referral to conclusion of investigation - % completed within 12 weeks	85%	72% Joint working with DWP will take long (average to close 10.2)
Learning and innovation		
Days training received – no of days per staff member	5	6.5 ave per staff member
Days training provided – no of days delivered against planned days	75%	60% (Parking session cancelled due to Covid-19, New starters for revs and bens also did not go ahead. Which would have met target)
Maintenance of Continual Professional Development for relevant staff	100%	100%
Implementation of improvement actions from Quality Assessments - % completed in line with agreed implementation date	90%	91%
Organisational		
% Recommendations implemented by original date	80%	27%
% of open recommendations overdue	10%	11%
Time from issue of Draft Report to completion of Action Plan – % within 10 working days	85%	31%

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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 Under/Overpayments	Increase In Liability	No of Penalty Charges	Total Penalty charge
NNDR	12	4	7	1	£1,125.94	£49,896.67	£58,548.64		
SPD	186	132	53	1	£553.53	£29,933.74	£28,783.56	29	£2,030.00
CTR	17	7	10	0	£54.29	£8,276.36	£2,823.08	0	£0.00
Housing Benefit	8	7	1	0	£123.54	£5,733.80	£6,424.08		
Housing	5	4	0	1					
Parking	1	0	1	0					
Planning	0	0	0	0					
Licencing	0	0	0	0					
Other*	3	3	0	0					
	232	157	72	3	£1,857.30	£93,840.57	£96,579.36	29	£2,030.00

*In relation to the 3 cases that were closed, 2 cautions were issued and 1 was removed from the housing list.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 NATIONAL AUDIT OFFICE GUIDE FOR AUDIT AND RISK COMMITTEES ON FINANCIAL REPORTING AND MANAGEMENT DURING COVID-19 AND A PAPER BY GRANT THORNTON UK LLP ON COVID-19 AND LOCAL GOVERNMENT

A report advising Members of two Papers, one produced by the National Audit Office and the other by Grant Thornton UK LLP on the impacts of Covid-19.

1.1 Introduction

1.1.1 The National Audit Office (NAO) have prepared a Guide for Members sitting on Audit and Risk Committees to discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 pandemic and Grant Thornton UK LLP have published a Paper on Covid-19 and local government.

1.1.2 The NAO Guide, whilst primarily for government departments and arms-length bodies, Members of this Committee might also find this of interest. The Guide includes the impacts on:

- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure

1.1.3 The guide can be accessed online <https://www.nao.org.uk/wp-content/uploads/2020/06/Guide-for-audit-and-risk-committees-on-financial-reporting-and-management-during-Covid-19-1.pdf>

1.1.4 The Grant Thornton UK LLP Paper considers the stark financial context as a result of the Covid-19 pandemic and the significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage and the key risks to consider.

1.1.5 A copy of the Paper can be found at **[Annex 1]**.

1.2 Legal Implications

1.2.1 None.

1.3 Financial and Value for Money Considerations

1.3.1 None.

1.4 Risk Assessment

1.4.1 None.

1.5 Policy Considerations

1.5.1 Business Continuity/Resilience

Background papers:

contact: Sharon Shelton

Nil

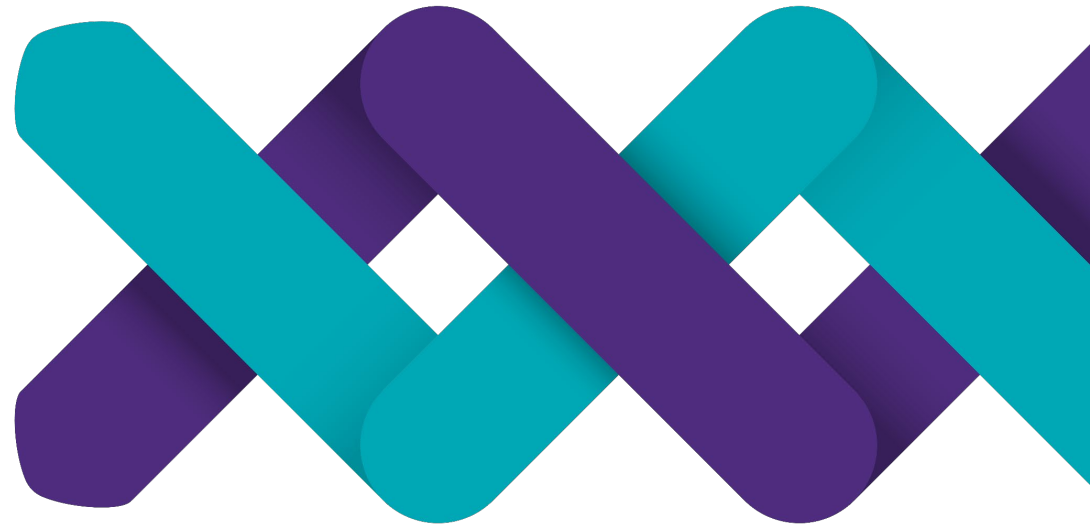
Sharon Shelton
Director of Finance and Transformation

COVID-19 and local government

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Slide content for audit committees

June 2020



Context

Public services have been at the forefront of the emergency response to the Coronavirus (COVID-19) including local government. Very few local government services have not been impacted by the COVID-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to COVID-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

COVID-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of COVID-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by COVID-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

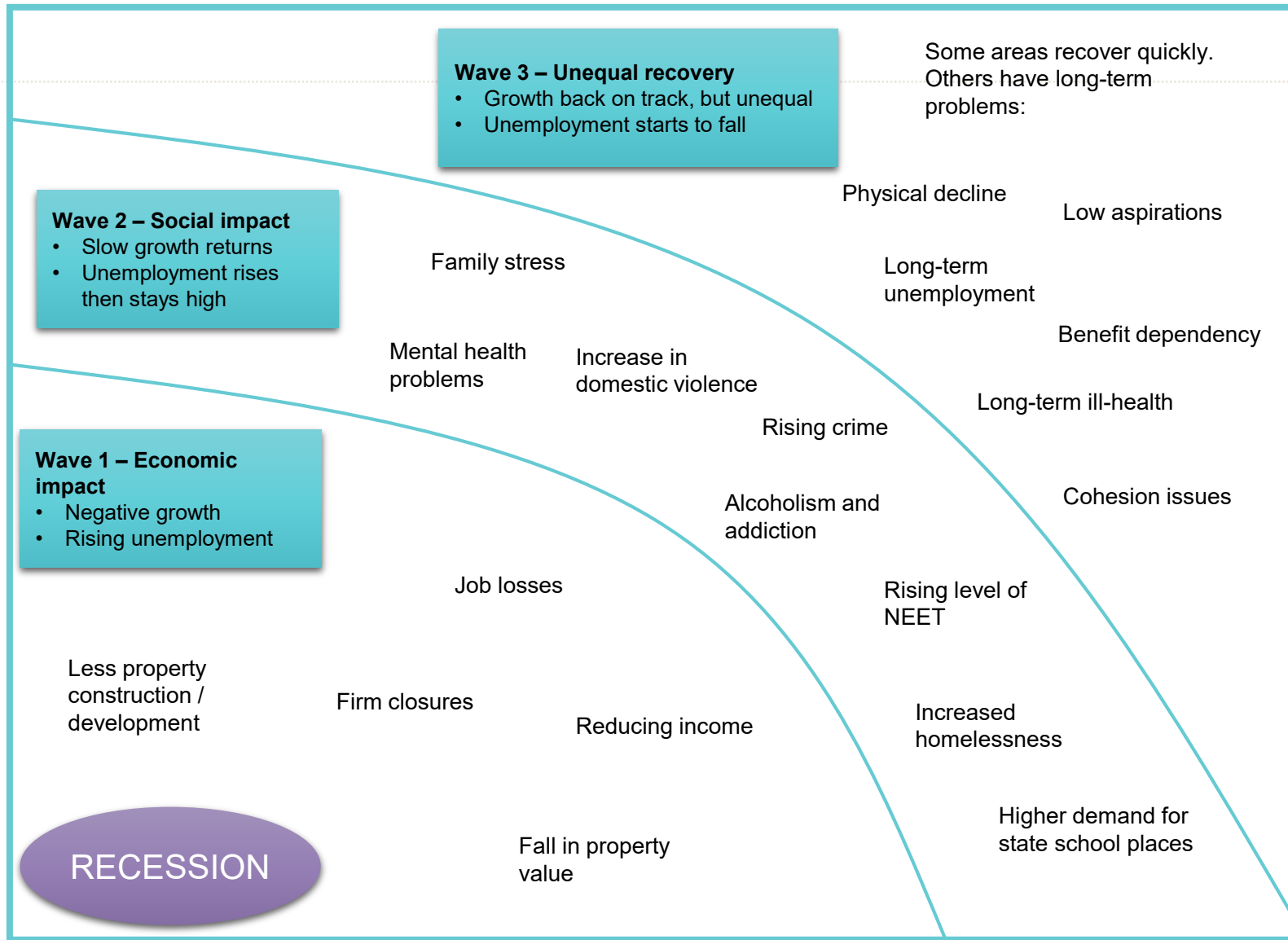
This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of COVID-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of COVID-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

Can we learn from previous recessions?

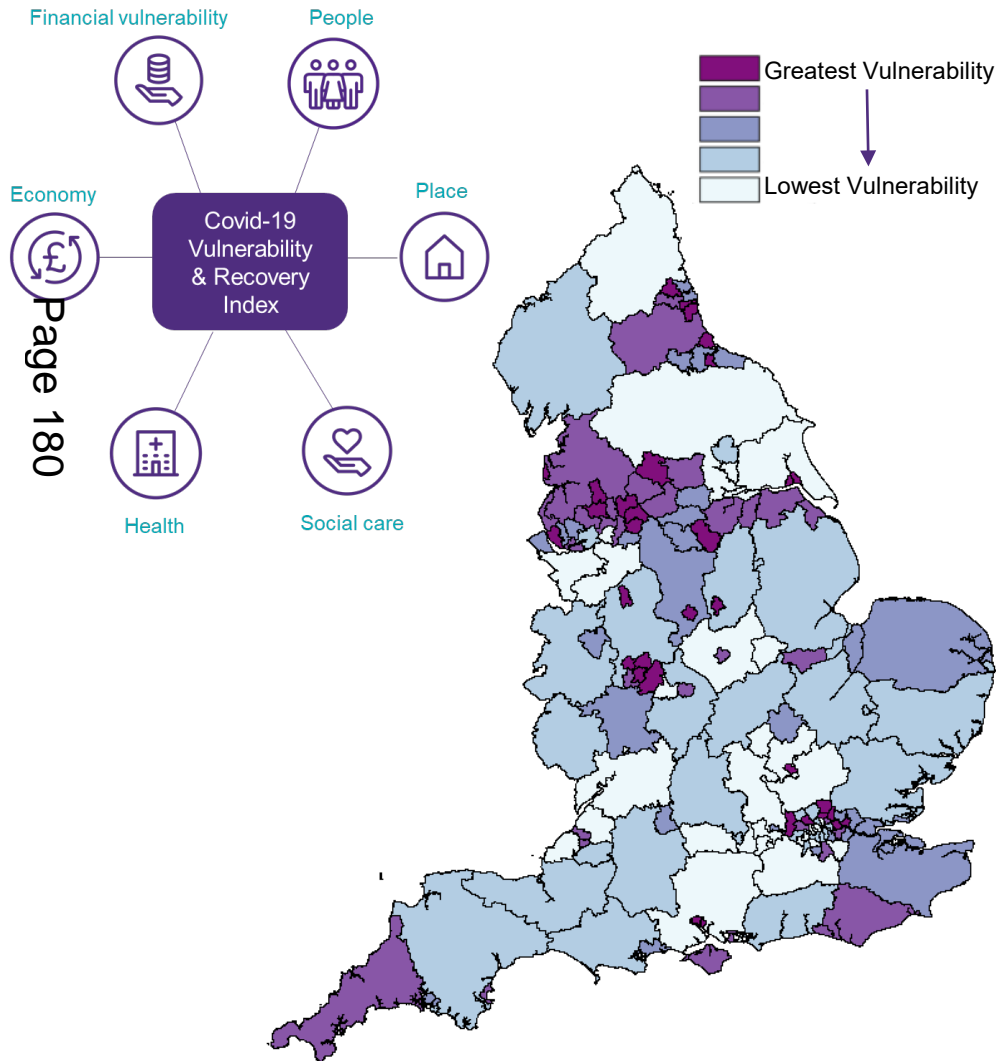
Page 179



Source: Audit Commission

Covid-19 Vulnerability Index







Overall Index (including Financial Recovery basket)



Scenarios and hypotheses

Local authority areas in 12-24 months?

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Theme	Reasonable worst case	Reasonable best case
People & community	 <ul style="list-style-type: none"> Multiple lockdowns and ongoing disruption Community dependency and expectation of sustained response Turbulence and activism within the VCS Socio-economic inequality is compounded Failure of leisure and cultural services 	<ul style="list-style-type: none"> Smooth exit from lockdown to a “new normal” Community mobilisation is channelled into ongoing resilience Strengthened VCS relationships and focus Systemic response to inequality is accelerated Leisure and cultural services adapted to social distancing
Business & economy	 <ul style="list-style-type: none"> 16% reduction in GVA for 2020 based on OBR reference scenario Slow / uneven economic recovery and “long tail” on unemployment Central gov / BEIS focus investment on areas furthest behind Loss of tourist & student spend causes unmitigated damage 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> 5-10% reduction in GVA Rapid economic recovery with employment levels close behind Central government “back winners” with investment Adaptation allows resumption of tourist and student economy Business base is weighted towards growth sectors
Health & wellbeing	 <ul style="list-style-type: none"> Increased demand and escalating need due to fallout from lockdown Newly-vulnerable cohorts place strain on the system Unit costs increase further as markets deteriorate and providers fail SEND transport unable to adapt to social distancing Imposed disruption of care system 	<ul style="list-style-type: none"> Positive lifestyle changes and attitudes to care reduce demand Needs of newly vulnerable cohorts met through new service models New investment in prevention and market-shaping manage costs New ways of working leading to stronger staff retention Locally-led reform of health and care system
Political & regulatory	 <ul style="list-style-type: none"> Local government side-lined by a centralised national recovery effort Unfunded burdens (e.g. enforcement and contact-tracing) Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> Local government empowered as leaders of place-based recovery Devolution and empowerment of localities Councils at the forefront of civic and democratic renewal
Environment	 <ul style="list-style-type: none"> Opportunity missed to capture and sustain environmental benefits The end of the high street / town centres Emissions and air quality worsened by avoidance of public transport Capital programmes stuck 	<ul style="list-style-type: none"> Ability to invest in transport modal shift and green infrastructure Changed working patterns rejuvenate town centres Sustained impact on emissions due to new behaviours New, shovel-ready infrastructure programmes
Organisational	 <ul style="list-style-type: none"> Inadequate funding forces fiscal constraint Working practices return to status quo – increased operating costs Imposed structural change within the place Austerity 2 Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> Adequate funding enables a programme of targeted investment Learning and adaptation to new operating environment Energised system-wide collaboration and reform Fiscal reform and civic renewal Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

Develop and test hypotheses around impact on place, services, operations, finances

Design rapid interventions - implement, test and evaluate

- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and how this aligns to existing Government priorities such as levelling up, and future proof against covid related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development	Recovery plan implementation
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release
Planning for standing up closed services	Place-based leadership – working with other public services, private and third sector to redefine place
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families)
Review of supply chain vulnerability	More long-term and strategic partnerships and funding models for third sector
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions	Review and update Local Plan
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments
Renewed strategic financial planning and focus on financial management	Emergency planning reviews and learning
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning
Government monitoring regime on additional funding for councils and covid funding administered by councils	Increase in outcomes based procurement and focus on social value

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

27 July 2020

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 SCALE OF AUDIT FEES FOR 2020/21

The report informs Members of the scale of audit fees for 2020/21.

1.1 Introduction

1.1.1 From 2018/19, Public Sector Audit Appointments Limited (PSAA) became an appointing person for principal local government authorities under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

1.1.2 PSAA, an independent company set up by the Local Government Association, is responsible for setting fees, appointing auditors and monitoring the quality of auditor's work at authorities that have opted into PSAA national auditor appointment arrangements.

1.1.3 Following consultation, PSAA has published the fee scale for the audit of the 2020/21 accounts. The scale of audit fees for 2020/21 can be found at the following link:

[fee scale for the audit of the 2020/21 accounts](#)

1.1.4 PSAA propose a fee scale for 2020/21 which is unchanged from the fee scale for 2019/20 of £35,248 leaving the appointed auditor and audited body to discuss an appropriate adjustment to the fee following recent changes to the scope and depth of audit work required. On that note Members in January were advised that the fee for 2019/20 proposed by Grant Thornton UK LLP subject to PSAA agreement is £42,748. Against this background PSAA acknowledge that the fee scale for the audit of the 2020/21 accounts will need to be revisited once there is clarity on the 2019/20 fees and the revised NAO Code **[Annex 1]**.

1.1.5 Also attached for information is a report on the outcome of a review undertaken by PSAA **[Annex 2]** on any future audit procurement and the sustainability of the local audit market.

1.2 Legal Implications

1.2.1 PSAA has a statutory duty to prescribe a scale of fees for the audit of accounts for authorities that have opted into its national auditor appointment arrangements.

1.3 Financial and Value for Money Considerations

1.3.1 It is assumed the fee scale for 2020/21 will be the same as that proposed by Grant Thornton UK LLP for 2019/20.

1.4 Risk Assessment

1.4.1 None.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	Scale fee for the audit 2019/20
Tonbridge and Malling Borough Council	£35,248	£35,248

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive



TouchstoneRenard
Management Consultants



Future Procurement and Market Supply Options Review

Final Report

Review Team: Harry Machin, Phil Austin
and Andrew Herbert

Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

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Acknowledgements

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Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

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1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

Key issues

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

Firms that are not currently approved to operate in this market

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

Firms that are approved to operate in this market

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31st July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

Options available to PSAA

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

2. **PURPOSE AND SCOPE**

2.1 Overview

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as to **maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply market**.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

2.2 Specific issues to be addressed

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

2.3 Other issues

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.

3. WORK DONE AND METHODOLOGY

3.1 Interviews

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19th December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

3.2 Analysing responses

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

4. BACKGROUND

4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

Abolition of the Audit Commission

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

Establishment of PSAA

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

The current appointing period

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

Code of Audit Practice

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

Regulation

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

Registration and licensing

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

Continuing change in the external audit and local audit sectors

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: <ul style="list-style-type: none"> Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.
The Competition and Markets Authority	April 2019	Recommendations re: <ul style="list-style-type: none"> Separation of audit from consulting services. Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. Introduction of statutory regulatory powers to increase accountability of audit committees.
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: <ul style="list-style-type: none"> A redefinition of audit and its purpose. The creation of a corporate auditing profession governed by principles. The introduction of suspicion into the qualities of auditing. The extension of the concept of auditing to areas beyond financial statements.
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other 'Big 4' firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other 'top 10' audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the 'top 10' audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the 'top 10', acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other 'top 20' audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

Firm	Current work for PSAA eligible bodies	Number of KAPs
<i>Incumbents</i>		
GT	40% by value of opted in bodies (183 audits)	26
EY	30% by value of opted in bodies (162 audits)	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO / Moore Stephens	6% by value of opted in bodies (26 audits)	6
<i>Others</i>		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
Total number of key audit partners		97

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this 'follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.' We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation's closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31st July 2019:

"The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019.** The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31st July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31st July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

5.2 In the current contract, what works well and what works less well? (Contract holders only)

What works well

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

What works less well

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31st July was mentioned as an issue by every firm, without any prompting from us.** Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

5.3 Number of lots and lot sizes

Six out of the nine approved firms said that they would like to see a larger number of smaller lots. Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.

5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31st July (compared to the pre-2017/18 target date of 30th September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

5.12 Other issues – fees

All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking. Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

Local auditing is more or less unanimously regarded as being unattractive at present, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?

Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts. Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

It has been difficult to persuade non-approved firms to engage with our review. Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA's role in it; while the remaining two firms had very little knowledge of this area.

6.4 Would your firm consider bidding for any local audits in the next round of procurement?

There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.

The following table summarises the position of each of the firms we spoke to:

Firm	Overall position	Comments
1	Mildly interested	Very limited understanding of what local audit involves.
2	Would not rule anything out	The balance of risk and reward is critical. 'If fees are high enough, why not consider it?'. The partnership would have to approve the business case for getting involved. 'The more hurdles there are, the more benefits there would need to be'.
3	Doubtful	They see many obstacles to getting involved in this market. They would need 'very positive assurances' that they had a near certainty of winning some work before they would consider bidding.
4	Negative	'We should stick to our knitting'.
5	Doubtful	Current fee levels would negate any interest.
6	Interested	Would need guidance, support and a small lot(s) to bid for.

6.5 How important would the following factors be?

The need to register as an approved firm / key audit partners

Those firms that were aware of the requirements saw them as a deterrent to entry.

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant 'learning curve'.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

Advice and support being available to assist with your entry to the market

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

Other factors

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?

Lot sizes, locations, values and composition of lots

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

The duration of the contract

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

The balance between price and quality used to evaluate the tenders

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

Whether lots include audits subject to FRC review

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

The legal right of electors to object

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

6.9 Would your firm consider participating in a joint audit appointment? On what basis?

Four of the six firms said they would be prepared to consider a joint audit appointment. Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

7. ISSUES AND OPTIONS

7.1 Introduction

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

7.2 SWOT analysis for the market for audits of PSAA’s eligible bodies

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA’s eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people’s lives. 	<ul style="list-style-type: none"> ▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA’s eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies). ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.

Opportunities	Threats
<ul style="list-style-type: none"> ▪ The Redmond review could make recommendations that address the firms' current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest 	<ul style="list-style-type: none"> ▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements.

7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected 'lessons learned' that CBS highlighted in their report and how these relate to our own findings.

CBS 'Lesson'	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including...	The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.
<ul style="list-style-type: none"> ▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market). 	<p>These factors remain and are now more strongly felt than before.</p> <p>It is no longer the case that 'firms are intending to stay in the market'. Their position is now less certain and dependent on developments ahead of the next procurement.</p>
<ul style="list-style-type: none"> ▪ there is evidence that gaining new entrants will be challenging. 	This remains the case.
<ul style="list-style-type: none"> ▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality. 	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market.
Given the above factors, positive 'market making' action may be advisable.	If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants.

CBS 'Lesson'	Our comments / current situation
There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted.	This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis.
In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.	This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality.

7.4 Opening up the market to new entrants

Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

In May 2019 the Cabinet Office made the following statement:

'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'

7.5 Supply side resources

Issues

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A 'lost generation' of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

Options for PSAA

PSAA could consider setting a specific target to keep all the approved firms, especially the 'Big 4', active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

7.6 Timing of audits

Issues

The government has set a target date of 31st July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30th September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

Options for PSAA

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

7.7 Fees and quality

Issues

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks. Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

Options for PSAA

Of all the issues that PSAA can influence, fees are by far the most important to the firms. Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

7.8 Number of lots and lot sizes

Number of lots

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

Size of lots

All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total. Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

Options for PSAA

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

7.9 Composition and location of lots

Allocation of audits

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

Locations

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

Specialist lots

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

Options for PSAA

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms.** However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

7.10 Contract duration

Issues

The **5 year contract duration is popular with firms and any shorter period would not be welcomed.** There was little support for a longer duration.

Options for PSAA

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

7.11 Contract structure

Issues

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies.....including: local government.....'

Options for PSAA

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

7.12 Joint audit options

Issues

Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms. However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

Options for PSAA

Consider tendering for joint audits as a potential future option. Consider whether there is potential for 'match-making' between approved and non-approved firms.

7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

SAAA

The Smaller Authorities' Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors' objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

NAO

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

Scotland, Wales and Northern Ireland

Some of PSAA's current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing 'best value' in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

Options for PSAA

PSAA's options are constrained by the current fragmented structure of the market and by PSAA's precisely defined role within it.

7.14 Creating a not-for-profit supplier

Issues

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

Options for PSAA

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.

GLOSSARY

Initials	Definition
AC	Audit Commission
ARGA	Audit, Reporting and Governance Authority
AS	Audit Scotland
CBS	Cardiff Business School
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance Accountants
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
KAP	Key Audit Partner
LGA	Local Government Association
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NFP	Not for profit
PIE	Public Interest Entity
PSAA	Public Sector Audit Appointments Ltd.
RSB	Recognised Supervisory Body
SAAA	Smaller Authorities' Audit Appointments
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
WAO	Wales Audit Office

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Agenda Item 18

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 19

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 21

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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