

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

25 March 2021

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 Tuesday, 6th April, 2021 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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2. Declarations of interest 7 - 8

Members in any doubt about such declarations are advised to contact Legal or Democratic Services in advance of the meeting

3. Minutes 9 - 12

To confirm as a correct record the Minutes of the meeting of Audit Committee held on 18 January 2021

Matters for Recommendation to Council

4. Audit Committee Annual Report 13 - 20

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 be presented to Council to support this assurance.

Decisions to be taken under Delegated Powers

5. Risk Management 21 - 38

This report provides an update on the risk management process and the Strategic Risk Register

6. Informing the Audit Risk Assessment for Tonbridge and Malling Borough Council 2020/21 39 - 80

The purpose of this report is to contribute towards the effective two-way communication between the Borough Council's external auditors and the Audit Committee as 'those charged with governance' in respect of the audit of the financial statements

7. Internal Audit Charter 81 - 88

This report seeks approval of the Internal Audit Charter

8. Internal Audit and Fraud Plan 2021/22 89 - 92

This report seeks approval of the Internal Audit and Fraud Plan for the year 2021/22

Matters submitted for Information

9. Internal Audit and Counter Fraud Update 93 - 108

This report provides an update on the work of both the Internal Audit function and the Counter Fraud function for the period April 2020 to March 2021

10. Scale of Audit Fees for 2021/22 109 - 110

This report informs Members of the scale of audit fees for 2021/22

11. Grant Thornton 2020/21 Audit Plan and Audit Progress Report and Sector Update 111 - 156

This report introduces two papers from the external auditor, namely the 2020/21 Audit Plan (Annex 1) and the Audit Progress Report and Sector Update (Annex 2)

12. Treasury Management Performance Update 157 - 166

This report provides details of investments undertaken and the return achieved in the first eleven months of the current financial year. The progress made in securing a medium term investment is also reported

13. Urgent Items 167 - 168

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

14. Exclusion of Press and Public 169 - 170

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

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This report informs Members of the nature and volume of liability and property damage insurance claims submitted for the year ending 31 March 2021

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This report updates Members on discussions taking place with Kent County Council with regard to the ongoing provision of Audit and Counter Fraud Services

17. Risk Management 183 - 186

This report provides Members with the reasons behind the allocation of the Waste/Recycling Contract as a red rated item within the Council's Strategic Risk Register (Agenda item 5 refers)

18. Urgent Items 187 - 188

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

MEMBERSHIP

Cllr V M C Branson (Chairman)
Cllr Mrs F A Kemp (Vice-Chairman)

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

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

Apologies for absence

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Agenda Item 2

Declarations of interest

Members in any doubt about such declarations are advised to contact Legal of Democratic Services in advance of the meeting

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TONBRIDGE AND MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

Monday, 18th January, 2021

Present: Cllr V M C Branson (Chairman), Cllr Mrs F A Kemp (Vice-Chairman), Cllr T Bishop, Cllr N Foyle, Cllr S A Hudson, Cllr J R S Lark, Cllr L J O'Toole and Cllr K B Tanner.

Councillors Mrs J A Anderson, R P Betts, M A Coffin, N J Heslop, M A J Hood, D Lettington, Mrs A S Oakley, W E Palmer, M R Rhodes, H S Rogers and J L Sergison were also present pursuant to Council Procedure Rule No 15.21.

PART 1 - PUBLIC

AU 21/1 DECLARATIONS OF INTEREST

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

AU 21/2 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 28 September 2020 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO THE CABINET

AU 21/3 RISK MANAGEMENT

Members reviewed the Risk Management Strategy and accompanying Risk Management Guidance attached at Annexes 1 and 2 respectively.

The report of the Management Team also provided an update on the risk management process and the Strategic Risk Register (Annex 3). Members were reminded that as a result of the Covid-19 pandemic and measures taken in response a number of risks had been re-categorised as RED and this remained the case. There had also been significant risks identified with the Local Plan and the delivery of local elections and these had been escalated to RED.

RECOMMENDED: That

- (1) the Risk Management Strategy and the Risk Management Guidance be commended to the Cabinet for adoption by Full Council; and

- (2) the updates to the Strategic Risk Register since the last iteration, with particular emphasis on the escalation to Red of the risks set out in paragraph 1.4.6 of the report, be noted.

***Referred to Cabinet**

**AU 21/4 TREASURY MANAGEMENT UPDATE AND TREASURY
MANAGEMENT AND ANNUAL INVESTMENT STRATEGY FOR
2021/22**

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 Treasury Management and Annual Investment Strategy 2021/22.

In addition, the report made reference to non-treasury management practices and the required procedures to ensure compliance with the Treasury Management and Prudential Codes of Practice and Statutory Guidance on Local Government Investments. A 'practice note' which was to be applied to any assessment of a non-treasury investment and its subsequent management was attached as Annex 6.

RECOMMENDED: That

- (1) the treasury management position as at 31 December 2020 and the reduced level of income incorporated in the 2020/21 revised estimates be noted;
- (2) the Treasury Management and Annual Investment Strategy 2021/22 (set out at Annex 5 to the report) be adopted; and
- (3) the practice note (set out at Annex 6 to the report) to be applied to the assessment and management of a non-treasury investment be endorsed.

***Referred to Cabinet**

DECISIONS TO BE TAKEN UNDER DELEGATED POWERS

AU 21/5 ACCOUNTING POLICIES

The Accounting Policies proposed for the 2020/21 Financial Statements were presented for consideration and endorsement. It was noted that only minor changes were required to those adopted for 2019/20 and related to revaluation on an annual basis of investment properties and the inclusion of insured value in regard of heritage assets.

RESOLVED: That the Accounting Policies presented in the report to be used in the preparation of the 2020/21 Financial Statements (as set out in Annex 1) be endorsed.

AU 21/6 ANNUAL REVIEW OF ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY AND WHISTLEBLOWING POLICY

The report informed Members of the outcome of the annual review of the Borough Council's Anti-Fraud, Bribery and Corruption Policy which resulted in enhancements being made to align with the Fighting Fraud and Corruption Locally Strategy produced by local government for local government.

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 (attached at Annex 1) be approved; and
- (2) the General Purposes Committee be invited to approve the Whistleblowing Policy (attached at Annex 2)

AU 21/7 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 and supporting guidance notes.

Reference was made to the 6th Anti-Money Laundering Directive issued in December 2020 and which was taken into account in the review. However, no changes to the Policy were considered necessary at this time.

RESOLVED: That the Anti-Money Laundering Policy and supporting guidance notes (attached at Annexes 1 and 2 respectively) be approved.

MATTERS SUBMITTED FOR INFORMATION**AU 21/8 INTERNAL AUDIT AND COUNTER FRAUD UPDATE**

Members were provided with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April to December 2020. Progress against the 2020/21 Plan was also reported and noted.

Particular reference was made to the requirement to undertake an External Quality Assessment in 2021. An external assessor had been procured, in partnership with Kent County Council, and the process was due to start in February.

AU 21/9 GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE

The report of the Director of Finance and Transformation introduced the Audit Progress Report and Sector Update prepared by Grant Thornton on emerging national issues and developments relevant to the Borough Council. Mr Paul Dossett, Engagement Lead, presented the reports and answered questions raised by Members.

AU 21/10 ANNUAL AUDIT LETTER

The report of the Director of Finance and Transformation advised Members of the receipt of the Annual Audit Letter for the year ended 31 March 2020. The content was noted.

AU 21/11 EXCLUSION OF PRESS AND PUBLIC

There were no items considered in private.

The meeting ended at 8.38 pm

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

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 planned 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 July 2020 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 2020. 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 July 2020 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 2020/21 was presented to the Audit Committee in July 2020 and they were able to consider the content prior to recommending approval.
- 1.3.4 In July 2020 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 2020 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 As part of the Public Sector Internal Audit Standards (PSIAS), Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP), which is overseen by the Audit Committee. The QAIP summarises all of the measures in place to enable an evaluation of the internal audit activity's conformance with the PSIAS. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team.
- 1.3.7 The Audit Committee was given a report in July 2020 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 July 2020 meeting of the Audit Committee.
- 1.3.9 The Internal Audit Charter gives the Audit and Assurance Manager (on behalf of the 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 2021.
- 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 2020. 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 2020 which was presented to the Audit Committee at their meeting of January 2021.
- 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 2020.

- 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.
- 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 2021 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 Anti-Money Laundering Policy were approved.
- 1.8.3 The Audit Committee also receives updates on the progress of the National Fraud Initiative results and other work undertaken by the Fraud Team as part of the audit and fraud updates to every meeting. The work of the Fraud Team reported to the Committee in 2020/21 include amounts to be recovered and increased annual liability due to fraud and error. Details of amounts to be recovered, increased annual liability and civil penalties issued for the year 2020/21 can be found in the internal audit and counter fraud update report elsewhere on this agenda.
- 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 2019/20 at the meeting of September 2020. 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.

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 2021 Members of the Audit Committee reviewed the Treasury Management Strategy Statement and Investment Strategy for 2021/22 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 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.' 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

06 April 2021

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 Council endeavours to pursue a forward-looking and dynamic approach to delivering services to the local community and will not be averse to taking a degree of commercial risk. However, it will always exercise a prudent approach to risk taking and decisions will be made within the parameters of the Council's internal control arrangements, i.e. Constitution, Procedural Rules, etc. These arrangements will serve to ensure that the Council does not expose itself to risks above an acceptable level.
- 1.1.4 The current Risk Management Strategy was recommended by this Committee in January and subsequently adopted by Full Council on 23 February 2021.

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 reported to earlier meetings the Covid-19 pandemic and measures taken in response resulted in a number of risks on the Strategic Risk Register being re-categorised as RED.
- 1.3.3 Members were also advised at the last meeting that the planned May County Council and Police and Crime Commissioner elections and the Local Plan had also been escalated to RED risk.
- 1.3.4 For completeness the risks categorised as RED at the time of the January meeting is given below and remains the case.
- 1) Financial position/budget deficit
 - 2) EU Transition and Economic Uncertainty (severely impacted by Coronavirus Pandemic)
 - 3) Corporate Strategy and Savings and Transformation Strategy
 - 4) Waste Services
 - 5) Elections
 - 6) Local Plan
- 1.3.5 Further information in relation to the RED risk “Waste Services” is contained in a separate part 2 report to this agenda.

1.3.6 Members are asked to note the updates in red font since the last iteration of the Register.

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

1.4.1 To give Members some reassurance as to the effectiveness of risk management 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.

1.4.2 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** the updates to the Strategic Risk Register since the last iteration with particular emphasis on those risks categorised as **RED**.

Background papers:

contact: Sharon Shelton

Nil

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

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 positive direction noted.</p> <p>Training delivered to all Hackney Carriage and Private Hire Drivers.</p> <p>Secure Database 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. Community Hub telephone contact line remains available and support can be re-established for any urgent need or in the event of further lockdowns and/or tighter restrictions.</p>	3	4	12	<p>Continue to refer Safeguarding concerns highlighted through the work of the Community Hub to appropriate agencies where necessary and also raise with partners at the weekly CSU meetings.</p>	Safeguarding Policy	Chief Executive	Jun-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 monitored. Decision taken not to be part of Kent pool from 2021/22 due to volatility arising from pandemic and therefore increased risk.</p> <p>Local government finance settlement for 21/22 confirmed as anticipated. Some New Homes Bonus to be paid in 21/22.</p> <p>Council Tax increase approved by Council for 21/22 at 2.3% (£5)</p> <p>MTFS and STS updated during Budget Setting Feb 2021/22. Funding gap updated and targets set</p> <p>Impact of Pandemic projected to have significant effect on Council finances, but this has been dampened by government grants and compensation schemes. Review and Reassessment underway. Ethos of essential spend only agreed by Cabinet and carried forward into 21/22 to protect Council finances.</p> <p>Regular returns submitted to MHCLG as required to assist with roll out of government grants. National Leisure Funding application submitted and £250,000 has been awarded.</p> <p>Response drafted for New Homes Bonus consultation - being presented to Cabinet 16 March 2021 closing date 7 April).</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 completed, including office accommodation.</p> <p>O&S Committee established work programme to continue to identify potential savings.</p> <p>New funding gap of £475k identified at Budget setting Feb 2021. Savings need to be both identified and implemented in the next 4 years as set out in MTFS. This is on top of the £500k savings where initiatives have been identified but not yet delivered. It is therefore imperative that savings initiatives are both identified and implemented by the Council ASAP.</p> <p>Response to NHB consultation required as some of the proposals could see the Council receiving little by way of NHB which will have repercussions for MTFS</p> <p>Continued tight rein on essential spend only to protect Council finances as approved by Full Council Feb 2021.</p> <p>Fair Funding Review awaited, as is Business Rates Retention Review. Assumptions about impact have been built into MTFS, but until these are released for consultation it is unknown as to whether assumptions are correct. Respond to consultation when available.</p> <p>Continue to lobby for additional national leisure funding and other government grant funding in response to the pandemic as appropriate. Ensure robust and regular monitoring of expenditure and income and take steps to adjust financial plans as needed in timely manner.</p>	Vision- to be a financially sustainable Council. Taking a business-like approach.	Director of Finance and Transformation	Jun-21

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3	Brexit / EU Transition 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. Working with Kent Resilience Forum since outbreak of pandemic on day to day basis, managing both pandemic and EU transition impacts. Furlough scheme running until end September 21 has 'stabilised' economic impact of Covid to some extent. Various business grant schemes being paid out weekly by TMBC on behalf of government. TMBC also paying Self Isolation Payments (Test and Trace) to those residents who qualify. All staff equipped to be able to work from home and deliver public services	3	4	12	Council continuing to working with Kent Resilience forum and County Partnership groups including Strategic and Tactical Co-ordinating Groups. Keep Business Impact assessments under review. 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. IT staff continuing to support staff working from home. As furlough scheme ends Sept 21, likely to be a greater demand on Council services and signposting. Staff preparing for this eventuality. Business grants will continue to be paid	N/A - external risk.	Chief Executive / Director of Finance and Transformation/ Management Team	Jun-21
4	Corporate Strategy and Savings and Transformation Strategy	F, R, S	Failure to meet objectives and/or make savings, including those arising from the planned West Kent Waste Partnership. Impact on quality of service, budget overspends, salami slicing, etc. staff motivation impacted and increased risk of fraud or error. Coronavirus pandemic has significant economic implications for the Council, businesses and residents.	01/04/2017	4	4	16	STS reviewed and updated in line with review of MTFS. With regular reports to update MT and Members Corporate Strategy reviewed - report to O&S January 2020 and addendum added in June 21 in response to pandemic. Advisory Boards considering individual entries as appropriate STS reviewed alongside Budget 21/22 and MTFS. Approved Full council Feb 21	3	3	9	Areas of potential savings to be formally identified and prioritised, with commitment to delivery of those selected. Commissioning of in service reviews via MT to identify potential areas of transformation and savings. Strategic asset management review to deliver new income . O&S programme to be supported in order to deliver savings to contribute to STS. During Budget setting Feb 21, Members reminded of the need to firstly deliver on the already identified savings initiatives (£500k) within the timescales set in the MTFS; and secondly to identify and implement the new funding gap of £475k within the next 4 years. Total savings therefore needed to be implemented of £975k.	Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities. Taking a business-like approach.	Chief Executive / Director of Finance and Transformation/ Management Team	Jun-21

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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	4	4	16	<p>Local Plan Inspectors Final report requested 11.3.21 - now awaited - Will conclude that the LP is unadoptable due to failure to meet the Duty to Cooperate (in respect of unmet housing need in Sevenoaks).</p> <p>Council's position remains unchanged, that the Local Plan as submitted met the Duty. On receipt of Final Report will challenge the Inspector's decision by requesting the Secretary of State intervenes and/or Judicial Review.</p> <p>In the event the challenges are unsuccessful, preparations are underway to start again building on existing development strategy and updating the current Plan, with a view to adopting by the end of 2023.</p> <p>Members are regularly updated by email by the Planning Policy Manager and reports to P&TAB.</p> <p>Seeking Member approval to restart the process (in the event the challenges are unsuccessful)</p>	3	3	9	<p>Inspectors have been asked for an indication of timescale for receiving Final Report (but this could take a number of weeks)</p> <p>Conferences with Counsel to consider both routes (most recent 8.3.21) - will review when Final Report received. Local MPs updated and continued support secured.</p> <p>Process and key tasks being scoped with Counsel. Timetable being prepared. Initial approaches to consultants. Duty to Cooperate meetings with neighbouring authorities maintained.</p> <p>Last email update to All Councillors sent on uploading Inspector's response of 2.3.21. PTAB on 2.3.21 received a full update report setting out the options going forward - Endorsed.</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	Mar-21
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	May-21
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>Corporate Health and Safety Group (chaired by DPHEH) 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 has been completed to consider impact of work on wellbeing and whether support services meet need and communication channels are adequate. Repeat of survey being considered through Corporate Health & Safety Group.</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	May-21

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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 update 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. Scrutiny Review of protocol commenced by Overview & Scrutiny Committee on 3 Dec 2020. Information Governance OSG considered risks of Brexit for transfer of personal data between EU and UK post 31 December 2020</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	May-21
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;</p> <p>Information Security Policy deployed via Policy Management System.</p> <p>Implemented network security measures including access controls.</p> <p>Considered cyber insurance.</p> <p>Established an Information Governance Group.</p> <p>Appointed a Member Cyber Champion.</p> <p>Rolled out Cyber awareness training to all staff and Members via eLearning.</p> <p>Deployed 'Next generation' PaloAlto firewall technology for improved visibility and control.</p> <p>Deployed software solution to identify potential confidential data held on file servers.</p> <p>Deployed DLP software at email egress point.</p> <p>Implemented secure email in accordance with NCSC guidelines.</p> <p>Maintained dual level firewall security with the KPSN gateway being primary and the Council's own firewalls secondary.</p> <p>Implemented Solarwinds Security Event Manager.</p> <p>1 member of IT team obtained Certified Information Systems Security Professional (CISSP) qualification October 2020.</p> <p>Implemented cloud backup and DR facilities to improve resilience; and embedded cyber security into DR and BCP processes.</p> <p>Continued to monitor Cybersecurity alerts via LGA Cyber Security email; through membership of NLAWARP and CiSP; and attending information sharing events such as Kent Connects Information Security Group.</p>	4	3	12	<p>The Council has;</p> <p>Prioritised the resources (both financial and staff) to ensure relevant updates and security mitigations are carried out in a timely manner.</p> <p>Scheduled annual IT Health Check (ITHC), quarterly PCI scans, and monthly vulnerability scans, feeding into remediation plans.</p> <p>Planned Palo Alto firewall migration to Cloud in March 2021.</p> <p>Planned Forcepoint web and email filtering migration to Cloud March/April 2021.</p> <p>Carrying out a Phishing testing process, and will be rolling out a training programme for all staff and Members dependent upon vulnerabilities detected.</p>	IT Strategy	Director of Finance and Transformation	Jun-21

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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	<p>IT Strategy and action plans have been reviewed and updated.</p> <p>Invest to save opportunities and funding identified and projects have been initiated.</p> <p>Digital Strategy - developed and approved by Members in July 2019.</p> <p>Replacement of legacy business systems and greater use of digital alternatives (cloud based) projects have been initiated.</p> <p>Disaster Recovery solution (cloud based) has been implemented.</p> <p>All staff are able to work remotely via laptops and secure 'always-on' VPN.</p> <p>Ipads and required software rolled out to Councillors, MT Members, Senior Management and in-field Staff.</p> <p>Data quality policy has been introduced to ensure improvement and efficiency can be achieved.</p> <p>Introduced Microsoft Teams for virtual meetings for members and staff.</p>	3	4	12	<p>IT Strategy has been reviewed, updated and extended to 2023 (previously 2018-2022) with linkage to MTFS and Savings and Transformation and Digital Strategy.</p> <p>New CMS solution has been procured and website project is underway for improving digital engagement for residents and businesses. Due to be launched in June 2021.</p> <p>Active engagement of Officer and Member Groups in the implementation of digital agenda and changes to the Website format and content.</p> <p>Migration of production environment underway from on-premises to Cloud to improve and sustain business continuity and service availability. Due to be completed 2021/2022.</p> <p>Mobile working solution for in-field workers currently being developed and undergoing field testing.</p> <p>Corporate/enterprise document management system has been procured and implementation is underway. Expected to be completed in 2021/2022.</p> <p>Multi-factor authentication solution being enabled for remote access to improve security and business continuity.</p> <p>Multi-media Contact Centre management solution being replaced with state of the art technology and features to improve customer experience in line with Migration of Telephony to the Cloud, to improve business continuity and functionality is underway. Expected to be completed in Q1 2021/2022.</p> <p>Introduction of mobile app facilities to enable proactive and responsive engagement with residents and businesses is being considered to be launched in parallel with the new website.</p> <p>Deployment of Office 365 to improve flexibility, availability and collaboration, is currently underway with 75% of staff already migrated.</p> <p>Investigating hybrid media conferencing solutions for on-site and remote workers.</p>	IT Strategy	Director of Finance and Transformation	Jun-21
11	Elections	R	<p>Failure to comply with legislation, miscounts and significant reputational impact.</p> <p>Government cancelled all elections due May 2020 due to pandemic. Elections in May 2021, will be more complex due to combined County and PCC elections and any other elections that are called. Concern over lack of staff to run elections, due to sickness or self-isolation, for core team and election staff.</p> <p>Local Boundary Commission Review announced - see report to Cabinet 30 June. Full council briefing scheduled for September</p> <p>Parliamentary Review initiated by Boundary Commission January 2021</p>	01/04/2017 updated January 2021	4	4	16	<p>Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress.</p> <p>Increase in staff database ongoing. Good practice and mitigation plans being discussed at a National level with AEA, EC and Cabinet Office. Ensure adequate PPE in place to protect staff. Try to minimise contact between staff before Election day. Undertake online training for elections staff. Core team working more remotely and not together in the offices to ensure that whole team do not all become ill together.</p> <p>Concerns have been raised via Kent Chief Executives to AEA, DCN and LGA regarding the risks and questioning whether elections should be rescheduled to, say, September 2021 when the roll out of the vaccine programme will have had greater effect.</p> <p>Confirmed Elections are taking place on 06/05/21</p>	3	4	12	<p>Broadening of staff skills and experience to build resilience.</p> <p>Increase of staff database ongoing</p> <p>Officer time will need to be directed to work with Boundary Commission</p> <p>Maintain contact with potential polling and count staff to assess any ongoing issues. Continue to promote 'separation' within core team to avoid whole team being absent at once due to illness. Continue to liaise with other bodies regarding the risks and lobby where appropriate. Promote postal voting to minimise contacts within polling venues. Confirmed elections are going ahead. Significant risks in ensuring Covid compliance at Polling Stations, Count venue. Full risk assessments been undertaken to ensure appropriate PPE and social distancing being complied with. Risk of staff shortages, recruitment in hand.</p>	Statutory requirement	Chief Executive	May-21

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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.	updated January	3	4	12	<p>The Council has in place;</p> <p>Business Continuity Plan. Corporate Business Continuity Risk Register</p> <p>Disaster Recovery Plans</p> <p>Inter-Authority Agreements Mutual Aid Agreement Partnership agreement with Kent Resilience Team.</p> <p>Emergency Planning Support Officer.</p> <p>Duty Emergency Coordinator System and Duty Officer System introduced to provide greater resilience.</p> <p>Covid Secure rest centre plan has been developed</p>	3	4	12	<p>Emergency planning documentation undergoing constant review and key aspects exercised on an annual basis.</p> <p>Training organised by Kent Resilience Team . 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.</p> <p>Duty Officer rota in place to support Duty Emergency Coordinators out of hours. All staff fully trained before commencing duties. 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 the future. Any approved changes will be reflected in the Corporate Business Continuity Plan. Business Continuity Group including all members of Management Team meets twice weekly to oversee and coordinate response to pandemic. Annual Emergency planning review to be reported to Management Team.</p> <p>Pandemic response dealt with as emergency through Kent Resilience Forum. Reports regularly presented to Cabinet. More detailed reports covering Review Reorientation and Recovery presented to relevant Advisory Boards. Training courses are being delivered in a Covid safe manner for roles within the Emergency Plan. Recruitment into roles in the Emergency Plan is ongoing. Emergency Planning Officer's hours increased to full time during pandemic. Virtual Emergency Management systems are being developed to allow a virtualised Emergency Control Room and data handling.</p>	Business continuity underpins the delivery of the Council's essential services	Director of Street Scene, Leisure & Technical Services	Jun-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	<p>Continual scanning of national / regional and Kent wide agenda by CE / Corporate Services manager.</p> <p>Participation in county wide debate via Joint Kent Chief Execs and Kent Leaders meetings.</p> <p>Update DEC 18 - County wide devolution discussions have been formally ceased. Horizon scanning and continued participation in Kent Leaders and CE meetings is ongoing.</p>	3	3	9	<p>White Paper on Devolution is to be published in the Autumn. Analysis of this will be a priority action.</p>	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>Officers 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 key services can continue. Discussions with TMLT on a weekly basis. Budget established to support during lockdown and reopening under social distancing/Covid conditions.</p> <p>Council withdrawn from Business Rates Pool from 1/4/21 given the potential financial risks at the current time</p> <p>Partnership work and liaison with key voluntary sector groups will continue via the Local Strategic Partnership meetings and community development meetings in priority wards.</p>	3	3	9	<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>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> <p>Continuing discussion with major partners regarding impact of COVID.</p> <p>Sevenoaks DC have withdrawn from Building Control Partnership. Proposals for returning this in-house will be reported to GP in March 2021</p> <p>The Council will continue to administer the grants to key voluntary sector bodies, with progress to be reported annually to CHAB. Additional Government grants as a result of the response to the pandemic (Emergency Assistance Grant and Covid Winter Grant) will be promoted to local voluntary sector organisations and applications for funding will be agreed via FIPAB.</p>	Savings and Transformation Strategy	Chief Executive	As required

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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 and properties to be converted.</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>CTR Scheme approved for 21/22. Hardship policy updated to allow for the "up to £50" contribution by KCC for working age CTR claimants in 21/22</p> <p>Council tax and business rates instalments were 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 during 20/21.</p> <p>Community hub set up to help those who are shielded or otherwise vulnerable. Signposting for help by telephone or website. CEV funding passed down by KCC in 20/21</p> <p>Local Emergency grant scheme and Winter grant scheme with funding passported from KCC</p> <p>New housing panel in place to work alongside RPs in considering best use of available properties. TMBC joined British Red Cross as a partner for severe hardship cases</p>	3	3	9	<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 needed.</p> <p>Monitor impact of furlough unwind, although this now extended until September 2021.</p> <p>New temporary accommodation purchased but refit needed to make fit for purpose. This to be accelerated in next few months.</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>work with Kent councils collaboratively to ensure grants and support targeted to those most in need</p> <p>Approach to additional purchase of TA to be agreed so timely response can be made to opportunities that arise.</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	Jun-21
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	<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 agreement with private providers.</p> <p>Close liaison with Leader, Deputy Leader and Cabinet in developing the Savings & Transformation Strategy.</p> <p>Clear and comprehensive reports to support Members in making appropriate decisions to support the S&TS.</p>	3	3	9	<p>Member briefings and training sessions.</p> <p>UPDATE JULY 2019- series of induction and training sessions delivered to Members following local elections in May 2019</p>	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive	As required

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
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 / EU Transition implications including Strategic Coordinating Group. Council Officers dial into Severe Weather Advisory Group meetings. Regular attendance at KRF training sessions. Ongoing support for Tonbridge Flood Group. Funding allocated in Council's Capital Plan to support works to Leigh Flood storage area.	Emergency Plan Contingencies Act 2004 Kent Emergency Response Framework West Kent Partnership and Medway Catchment Partnership	Civil Director of Street Scene, Leisure & Technical Services	Jun-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 now complete with a final report/risk assessment by contractors delivered 3/11/2020. Medium/Low risk, with no immediate further action required other than ongoing in house monitoring, but some recommendations made. Report into February SS&ESAB to agree staged approach to recommendations.	Contaminated Land Strategy	Director of Planning Housing and Environmental Health	Jun-21
19	Waste/ Recycling Contract	F, R, S	Failure to provide new service and deliver described outcomes in accordance with contract timescales and health and safety obligations. 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. Future sustainability of contract.	01/07/2018	4	4	16	Partnership arrangement with TWBC, with allocation of key tasks. Internal Project Group reporting regularly to MT and Members. External advice sought from specialists on key decisions. Detailed project plan, risk register and marketing plan in place. 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. Full roll out of service to flats postponed with trial to take place in Tonbridge. Joint Task and Finish Group established with Tunbridge Wells BC following fatality on the TW's side of the contract. Group set to review both Urbasers response to the incident and TW's and TMBC's implementation and monitoring of H&S protocols and procedures. Notes of the meeting to be fed in to MT.HSE investigation has concluded that no action will be taken by the HSE or Police. Regular meetings taking place with senior management at Urbaser to consider the future sustainability of the contract and financial implications resulting from the pandemic.	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 recommended. 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	Jun-21

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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	COVID-19	Impact on resources within service	Ongoing	Part of Strategic Risk Register.
	Larkfield Leisure Centre	All showers are currently closed due to COVID-19. Last set of samples in August came back all clear, but the biocide is running at 100ppm in order to achieve that. Further samples now clear, so Trust have moved to quarterly sampling. We will only need this if samples go the wrong way, but the cost of such a system is unbudgeted.	Ongoing	Ongoing. Impact of pandemic continues and biocide levels will be reviewed once centre is back in full operation.
	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.
Finance and Transformation	Subsidy Audit	Delays in certification for subsidy audit papers by external Auditors (Grant Thornton).	Ongoing	Extension granted by Department of Work and Pensions for completion by 31st March, original submission date of end of November, further extensions have been granted. If not completed by end of March 2021 financial penalties could be incurred.
	Council Website	Implementation of new Council Website for transitional arrangements.	Ongoing	
	IT infrastructure	Procurement and implementation of IT infrastructure for production environment. Current equipment goes out of support in December 2020.	Ongoing	In order to mitigate the immediate risk IT services are currently looking at options to extend the support for existing equipment past December 2020 with the current service provider.
	Covid 19	Pandemic issues surrounding Council Finances	Ongoing	Part of Strategic Risk Register.
	Equipment Failure	Folding Machine used for Revenues and Benefits correspondence is now out of maintenance contract. New single folding machine procurement has been delayed due to Covid lockdown.	Resolved	Machine arrived and has been used to produce Annual Bills for Council Tax and Business Rates.
	Statement of Accounts	Due to remote working the work undertaken by our External Auditors required additional time, specifically in the area of asset valuation. The potential delays resulting in the possibility of not having the accounts signed by the November deadline.	Resolved	Information passed to Auditors resulting in changes to Statement on Asset Valuations and an unqualified audit opinion.
	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

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

Risk Identified	Background	Removed or ongoing	Reason for removal / ongoing
Temporary Accommodation (TA)	Increasing use of TA (backdrop of Homeless Reduction Act 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. Additional resources to manage backlog of inspections.	Ongoing	During the Covid-19 crisis the ceasing/reduction in the food hygiene inspection regime may result in food safety issues. There will also be backlog of food safety inspections due to
Increased number of planning appeals/inquiries	Identified in service and in the knowledge of associated costs to resource them effectively	Ongoing	Volume and complexity of applications coming forward in parallel with local plan progression and given current uncertainties in timescales for adoption
Local Kent Tracing Partnership work	T&M from end November 2020 are part of the Local Kent Tracing Partnership which involves Officers visiting the properties of Covid positive residents to complete close contact information with them.	Ongoing	High risk activity - fully risk assessed and measures implemented to reduce risk as much as possible but requires continuous monitoring and review.
Local Plan	Risk of delay to adopting the Plan if the Council's challenge of the LP Inspector's Final Decision remains unresolved for an extended period of time.	Ongoing	In the event the process has to begin again the timescales to adopt by the end of 2023 are very challenging. Failure to secure member approval by the Summer would make this unachievable.
Local Plan	Although Covid-19 infection rates are falling due to the third lockdown measures introduced in January 2021 there remains a risk of illness having a detrimental impact on the Council's Team	Ongoing	The Team will continue to be fully engaged in the Local Plan process throughout 2021, initially to progress routes of challenge of the LP Inspector's decision and potentially starting the process again later in the year.

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. Remote access capabilities reviewed, and meeting held with contractors to discuss implications/contingencies. Ongoing attendance at Strategic/Tactical Coordinating Group meetings.
	Legionella	Problem identified in LLC Dry change showers.	Ongoing	See issues covered under Central Services.
	Bridge inspections	Bridges on Council owned land identified as service risk. Internal Officer Group established and bridge audit progressed. Identified as Service Pressure Aspiration. Revenue budget approved to inspect and repair bridges over 2 years and annual inspections to be progressed.	Ongoing	Second year programme of work currently being progressed.
	Leybourne Lakes Country Park	Anti-social behaviour increased on site during peak summer months which became unmanageable for on site staff. External security staff appointed and extended during Covid due to increase in users.	Ongoing.	Problem will need to be addressed annually during peak summer months.
	Waste Contract	Following a previous Road Traffic Accident and recent fatality on the contract a joint Task and Finish Group has been established with TWBC to undertake a fundamental review of the Partnerships internal operating procedures in regard to health and safety application and monitoring. Group to include (from TMBC) Director, Head of Service, Partnership Manager, H&S Officer, Legal and operational staff.	Ongoing.	First meeting to be held on 15 December 2020

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

Report of the Management Team

Part 1- Public

Delegated

1 INFORMING THE AUDIT RISK ASSESSMENT FOR TONBRIDGE AND MALLING BOROUGH COUNCIL 2020/21

The purpose of this report is to contribute towards the effective two-way communication between Tonbridge and Malling Borough Council's external auditors and the Audit Committee, as 'those charged with governance' in respect of the audit of the financial statements.

1.1 Background

1.1.1 Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and specify matters that should be communicated.

1.1.2 This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

1.2 Communication

1.2.1 As part of their risk assessment procedures our external auditor is required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Related Parties
- Accounting Estimates

1.2.2 This is by way of a series of questions on each of these areas for Management to consider and formally respond. The questions and responses can be found at **[Annex 1]**. The paper prepared in power point form by our external auditor on this subject matter can be found at **[Annex 2]**.

1.2.3 The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

1.3 Legal Implications

1.3.1 Under International Standards on Auditing (UK), auditors have specific responsibilities to communicate with the Audit Committee.

1.4 Financial and Value for Money Considerations

1.4.1 Failure to provide the requisite information could result in additional work being required to be undertaken by the external auditor and increased cost.

1.5 Risk Assessment

1.5.1 Failure to provide the requisite information could cast doubt on the internal control environment and the integrity of the financial reporting and governance arrangements.

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, **endorse** the responses to the questions set out at **[Annex 1]**.

Background papers:

Council policies and records

contact: Paul Worden

Richard Benjamin

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	The reductions in income and increased costs seen as a result of the Covid-19 pandemic and associated government grant funding will have a significant impact on the financial statements; and where for some of the grant funding the council is acting as agent and for others principal under the Code of Practice. The scale of the impact is such that variations between years could be significant within the financial statements.
2. Have you considered the appropriateness of the accounting policies adopted by Tonbridge and Malling Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies to be used for the 2020/21 financial statements were considered and approved by the Audit Committee in January 2021. No events or transactions have occurred since that date to change or adopt new accounting policies.
3. Is there any use of financial instruments, including derivatives?	As part of its day to day treasury management activity the Council will hold financial instruments such as fixed term deposits and certificates of deposit during the year. The Council currently also has sums invested in three property investments funds.
4. Are you aware of any significant transaction outside the normal course of business?	None to the best of our knowledge.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None to the best of our knowledge, other than as a result of the revaluation of Council owned assets as part of the closure of accounts process subject to the continuing impact of Covid-19 on asset values.
6. Are you aware of any guarantee contracts?	The Council is acting as guarantor for the pension liability of Tonbridge and Malling Leisure Trust to permit its entry into the Kent County Council Superannuation Fund.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None to the best of our knowledge.

8. Other than in house solicitors, can you provide details of those solicitors utilised by Tonbridge and Malling Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Solicitors engaged during the year to provide asset related, procurement, contractual, employment advice and in respect of planning inquiries.
9. Have any of Tonbridge and Malling Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None to the best of our knowledge.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Consultants engaged in the year in the normal course of business only, e.g. Local Plan.

Fraud risk assessment

Question	Management response
<p>1. Have Tonbridge and Malling Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</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 2020/21.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>The Internal Audit planning process carries out a risk assessment in order to score against fraud and error and targets those areas where the risk is considered highest.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Tonbridge and Malling Borough Council as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There are no instances of internal fraud as far as we are aware and no other significant concerns in 2020/21 have been reported to Management Team.</p> <p>The zero-tolerance culture of the organisation towards fraud is reinforced by use of Anti-Fraud, Bribery and Corruption Policies supported by a Whistleblowing Policy with outcomes being reported to Members. Any reported allegations of fraud will be investigated and dealt with according to the relevant policies.</p>

<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Tonbridge and Malling Borough Council where fraud is more likely to occur?</p>	<p>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.</p>
<p>5. What processes do Tonbridge and Malling Borough Council have in place to identify and respond to risks of fraud?</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 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 held 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>

<p>6. How do you assess the overall control environment for Tonbridge and Malling Borough Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>See response to question 5.</p> <p>To the best of our knowledge there are no areas where there is a potential for override of controls or inappropriate influence over the financial reporting process.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None to the best of our knowledge.</p>
<p>8. How do Tonbridge and Malling Borough Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>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. No significant issues have been reported in 2020/21.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p>	<p>The Council acknowledge the inherent risk of fraud and corruption occurring within the organisation, however, while</p>

How are the risks relating to these posts identified, assessed and managed?	some posts may be more at risk of fraud than others, due regard of the risk is made in the control measures in place.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	None to the best of our knowledge. See response to question 5.
11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	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.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	There were no issues raised during the year 2020/21.
13. Have any reports been made under the Bribery Act?	No.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Tonbridge and Malling Borough Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's 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.
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	See response to question 1.

3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	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.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	We are not aware of any actual or potential litigation or claims that could materially affect the financial statements.
5. What arrangements does Tonbridge and Malling Borough Council have in place to identify, evaluate and account for litigation or claims?	See response to question 1.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Related Parties

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Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Tonbridge and Malling Borough Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Tonbridge and Malling Borough Council whether Tonbridge and Malling Borough Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>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.</p>
<p>2. What controls does Tonbridge and Malling Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Both Members and senior officers are required to complete a related party transaction form as part of the closure of accounts process and to register any interest they might have. A record of any such interest is held by the Monitoring Officer and in the case of Members available on the website.</p>

3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Where a Member or an officer has a related interest in the subject matter they are required to exclude themselves from the decision making process.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Dependent on the subject matter emergency or urgency provisions may be invoked where required.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Accounting estimates are used in the valuation of property, plant and equipment, heritage assets, investment properties, investments, pensions and provisions. There have been no changes in the methodology adopted for the 2020/21 accounts.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	This is addressed as part of the closure of accounts process including seeking external advice where appropriate that may require a material uncertainty statement disclosure note.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Methods and assumptions are agreed with the relevant party, e.g. valuers, fund managers and actuaries and where possible shared with the external auditor in advance of the audit.
4. How do management review the outcomes of previous accounting estimates?	Where a current estimate is different to those previously supplied, reasons will be sought from those providing the estimate.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes have been made to the estimation processes.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Specialist skills or knowledge will be bought in where either the expertise does not exist in-house or where an element of independence is required.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The estimates will normally cover those area which are material within the financial statements and subject of review as part of the closure of accounts process.

8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Annual review is made of these estimates as part of the closure of accounts process.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Accounts presented to Management Team and Audit Committee with explanatory notes to aid understanding and challenge.
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	None to the best of our knowledge.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	To the best of our knowledge.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	The accounting policies to be used for the 2020/21 financial statements were considered and approved by the Audit Committee in January 2021.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Estimate based upon EUV or DRC depending on type of asset.	Asset valuations are based upon RICS red book guidance and until sold valuation remains an estimate of asset value.	External Valuer is used for valuation.	Uncertainty will occur on all valuations but will be greater where value is based upon static markets or income yield.	No.
Heritage Assets	Asset values based on insured value.		External Valuer who specialises in historic buildings has been used for material asset values.	Valuation is based upon insured value. If asset requires replacement, full cost will be reimbursed but could affect future insurance premiums.	No.
Investment property valuations	Values based upon rental income and potential yield from property.	Asset valuations are based upon RICS red book guidance and until sold	External Valuer is used for valuation.	Uncertainty will occur on all valuations but will be greater where value is based	No.

		valuation remains an estimate of asset value.		upon static markets or income yield.	
Depreciation	Estimation based upon life expectancy. For Land and Buildings (L&B) this will be based upon valuation estimate and for Vehicles, Plant and Equipment (VPE based upon previous asset life.	For L&B this is covered under property above. For VPE a review is undertaken by service management annually to confirm existence of asset and life expectancy is accurate.	External Valuer is used for L&B.	L&B are subject to a full revaluation every five years. VPE - the majority have a short life expectancy, below 10 years. Any change unlikely to be material.	No.
Valuation of defined benefit net pension fund liabilities	Estimation method is based on actuarial assumptions and statistical data.	Comparisons made with prior years with explanations sort on material changes.	Actuaries are appointed by administering authority, Kent Council Council.	Actuaries will provide details of uncertainty and sensitivity analysis on assessment.	No.
Level 2 investments	Covered under investment property above.				
Level 3 investments	The Council has no assets of this type.				
Fair value estimates	This covers investments and investment	Investments are shown at quoted prices supplied	Values supplied by relevant fund manager.	Uncertainty exists in market value which is subject to fluctuation.	No.

	property (see above).	by the relevant fund manager.		These are however seen as long-term investments.	
Provisions (including NNDR appeals)	External consultants updated for current position and or review of current RV and likelihood of appeal.	Monthly review of position for both 2010 and 2017 list.	Used external consultants in respect of 2010 list, but now updated for monthly movement.	Unable to determine who and when appeal will be submitted by liable party, meaning amounts held could be materially different to outcome.	No.
Accruals	Accruals limit set at £500 but authority accepts values below that level from services.	Review of amounts paid and when goods received in month following closedown.	No.	Uncertainty minimised through use of purchase ordering system for operational expenditure.	No.
Credit loss and impairment allowances	Aged debt model allowing for higher potential loss with older debt.	Review of collectability carried out on larger debt values and who the debtor is.	No.	Uncertainty minimised through local knowledge.	No, but one or more allowances may see an increase due to the impact of Covid-19.
Finance lease liabilities	N/A	N/A	N/A	N/A	N/A

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Informing the audit risk assessment for Tonbridge and Malling Borough Council 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Tonbridge and Malling Borough Council's external auditors and Tonbridge and Malling Borough Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management,
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Tonbridge and Malling Borough Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	
2. Have you considered the appropriateness of the accounting policies adopted by Tonbridge and Malling Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	
3. Is there any use of financial instruments, including derivatives?	
4. Are you aware of any significant transaction outside the normal course of business?	

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	
6. Are you aware of any guarantee contracts?	
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	
8. Other than in house solicitors, can you provide details of those solicitors utilised by Tonbridge and Malling Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	

General Enquiries of Management

Question	Management response
9. Have any of Tonbridge and Malling Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Tonbridge and Malling Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Tonbridge and Malling Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Tonbridge and Malling Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Tonbridge and Malling Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Tonbridge and Malling Borough Council where fraud is more likely to occur?</p>	
<p>5. What processes do Tonbridge and Malling Borough Council have in place to identify and respond to risks of fraud?</p>	

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Tonbridge and Malling Borough Council, including:</p> <ul style="list-style-type: none">• the existence of internal controls, including segregation of duties; and• the process for reviewing the effectiveness the system of internal control? <p>Internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	
7. Are there any areas where there is potential for misreporting?	

Fraud risk assessment

Question	Management response
<p>8. How do Tonbridge and Malling Borough Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	
<p>12. Are you aware of any whistle blowing potential complaints by potential whistle blowers? If so, what has been your response?</p>	
<p>13. Have any reports been made under the Bribery Act?</p>	

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Tonbridge and Malling Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Tonbridge and Malling Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	

Impact of laws and regulations

Question	Management response
5. What arrangements does Tonbridge and Malling Borough Council have in place to identify, evaluate and account for litigation or claims?	
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	

Related Parties

Issue

Matters in relation to Related Parties

Tonbridge and Malling Borough Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Tonbridge and Malling Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Tonbridge and Malling Borough Council's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none">the nature of the relationship between these related parties and Tonbridge and Malling Borough Council <p>whether Tonbridge and Malling Borough Council has entered into or plans to enter into any transactions with these related parties</p> <p>the type and purpose of these transactions</p>	
<p>2. What controls does Tonbridge and Malling Borough Council have in place to identify, account for and disclose related party transactions and relationships?</p>	
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- Page 72
- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
 - How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
 - How the entity's risk management process identifies and addresses risks relating to accounting estimates;
 - The entity's information system as it relates to accounting estimates;
 - The entity's control activities in relation to accounting estimates; and
 - How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	
4. How do management review the outcomes of previous accounting estimates?	
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul data-bbox="98 846 699 988" style="list-style-type: none">- Management's process for making significant accounting estimates- The methods and models used- The resultant accounting estimates included in the financial statements.	

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations					
Heritage Assets					
Investment property valuations					
Depreciation					

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities					
Level 2 investments					
Level 3 investments					
Fair value estimates					

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions (including NNDR appeals)					
Accruals					
Credit loss and impairment allowances					

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities					



TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

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 July 2020.

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 A review of the Charter found that it continues to meet the requirements of the PSIAS and CIPFA's Local Government Application Note to the Standards. The Charter is attached at **[Annex 1]**.

1.2.3 The Charter was approved by Management Team on 9 March 2021; 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

06 April 2021

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 INTERNAL AUDIT AND FRAUD PLAN 2021/22

This report seeks Members approval of the Internal Audit and Fraud Plan for the year 2021/22.

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 2021/22 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 2021/22

1.2.1 A copy of the proposed Internal Audit and Fraud Plan for 2021/22 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 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 discussed with Management Team and brought back to a future meeting for Audit Committee to approve.
- 1.2.5 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 pending the outcome of the service review. 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.
- 1.2.6 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 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.

1.5 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 2021/22 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 2021/22.

Background papers:

Contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 INTERNAL AUDIT AND COUNTER FRAUD UPDATE

This report provides Members with an update on the work of both the Internal Audit function and the Counter Fraud function for the period April 2020 to March 2021.

Internal Audit Update

1.1 Introduction

1.1.1 The Accounts and Audit Regulations require the Council 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 and guidance.*

1.1.2 The Public Sector Internal Audit Standards (PSIAS) require 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.* For TMBC, the "Board" is considered to be the Audit Committee.

1.2 Progress against the 2020/21 Plan

1.2.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2020/21 was approved by Members of the Audit Committee on the 27 July 2020. The purpose of this report is to provide Members with an update on the progress of the Internal Audit team in 2020/21 against the Plan. The Plan reflects all work to be undertaken by the team during the financial year, containing both assurance work and consultancy work.

1.2.2 Since the last Audit Committee in January, progress against the Audit Plan has been good, with completion expected by the Annual Report to Audit Committee in July. There has been sufficient coverage in the Plan to enable the Chief Audit Executive to provide an overall opinion on risk management, governance and control for the financial year.

1.2.3 The majority of audits on the 2020/21 Internal Audit Plan have now been commenced. Nine final reports have been issued so far this year; and a further 2 audits are at draft report stage. The resultant opinions have been largely positive with 1 'High' rating, 3 'Substantial', 3 'Adequate' and 2 not given an opinion rating as completed as consultancy engagements. There are another 5 audits in progress and nearing completion and 4 that have been planned and due to commence, 2 of which will run through into 2021/22 and have also been included in the draft 2021/22 Audit Plan. A summary of the current status of all audits on the 2020/21 Plan, including a summary of findings where finalised or at draft report, is attached at **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

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

1.3.1 As part of the PSIAS, Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP), which is overseen by the Audit Committee. The QAIP 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. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. Oversight of the QAIP enables the Audit Committee to discharge its duty to ensure an adequate and effective internal audit function.

1.3.2 An External Quality Assessment (EQA) was last undertaken between January and March. It is a requirement for an EQA to be undertaken every 5 years. Initial feedback from the Review are positive. The final report from the review, and the resulting recommendations in the improvement plan will be presented to the Audit Committee in July.

Counter Fraud Update

1.4 Prevention and Detection of Fraud, Bribery and Corruption

1.4.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2020/21 to date.

1.4.2 The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. New data sets were submitted in December 2020 which have resulted in 767 matches which will be reviewed during the year.

1.4.3 The NFI have opened a consultation on proposed new powers to support further data matching outside of fraud, these being:

- to assist in the prevention and detection of crime (other than fraud);

- to assist in the apprehension and prosecution of offenders;
- to assist in prevention and detection of errors and inaccuracies; and
- to assist in the recovery of debt owing to public bodies.

We have responded to the questions asked, generally agreeing that the new powers would be of benefit to TMBC.

- 1.4.4 The Kent Intelligence Network continues to support Local Authorities in Kent in preventing and detecting fraud. The key focus area for 2020/21 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises.
- 1.4.5 In 2018 Kent Finance Officers Group agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of SBRR nationally, the cost contribution from TMBC was £1,000. The total identified additional business rates due for the year to the end of December 2020 was £46,571 with increased annual liability of £8,034. Data matches have also identified missing business rate referrals and this has led to an increase in business rates received to December 2020 of £5,901 with a future loss provision of £12,725.
- 1.4.6 Funding from KCC continues to support the identification of council tax cases where information held elsewhere, including credit reference agencies, indicates a discount or exemption awarded may be erroneous. Reviews of high-risk Single Person Discount cases have been undertaken and this has identified a number of cases where they have removed the discount, this has amounted to £29,156 with a future loss provision of £23,579. A total of £420 penalties have been applied.
- 1.4.7 Where a match is found through any of the routes above it does not necessarily indicate fraud in all instances; it does however highlight an inconsistency in the information held which requires further investigation and could be attributed to either fraud or error.

1.5 Investigating Fraud, Bribery and Corruption

- 1.5.1 The Counter Fraud Team is responsible for investigating all allegations of fraud, bribery and corruption, whether this is through internal fraud, 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 agencies mainly the DWP and other local authorities to progress investigations.
- 1.5.2 In 2020/21 to date, the Team have closed 111 cases and received a total of 208 referrals, 87 of which relate to NFI; there are 10 ongoing investigations with a further 3 being investigated from previous year. The total amount of income due as a result of investigations to date is £49,404.52 with increased annual liability of £22,444.06. Civil penalties (net) in the sum of £1,400.00 were also applied. **[Annex 3]** summarises the results of investigations concluded in 2020/21.

1.6 Small Business, Retail, Hospitality and Leisure Grants and other Business Grants

- 1.6.1 In response to Covid-19, the government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors.
- 1.6.2 Under the Small Business Grant Fund (SBGF), all businesses in England in receipt of either Small Business Rates Relief (SBRR) or Rural Rates Relief (RRR) in the business rates system will be eligible for a payment.
- 1.6.3 Under the Retail, Hospitality and Leisure Grant (RHLG), businesses in England that would have been in receipt of the Expanded Retail Discount (which covers retail, hospitality and leisure) on 11 March with a rateable value of less than £51,000 were eligible for the cash grants.
- 1.6.4 The Cabinet Office provide councils with access to the Spotlight system to manage grant applications. Spotlight performs automated due diligence checks on each application. This includes checks against Companies House information and also identifies where more than one application has been made over different administrating councils. The system output highlights areas of risk that require further investigation. Tonbridge and Malling made the decision to carry these checks out in bulk post paying the grant.
- 1.6.5 To date, 763 applications have been passed through the Spotlight software with the remainder requiring additional information that may not be available in order to be processed by the system. Of these 763, issues were found with 17. Of the 17, 4 required no further action, with 13 requiring further work to establish entitlement.
- 1.6.6 As members of the National Anti-Fraud Network (NAFN) we have received regular alerts where fraud has been identified. To date, 93 alerts from NAFN have been received. These alerts cover issues such as false email addresses, false bank accounts and empty property alerts. Of the 93 alerts received none have required further investigation as they have not made applications in our area or the applicant was stopped prior to being accepted for a grant.
- 1.6.7 The full list of grants has also been processed through the Kent Intelligence Network Destin system. This has raised 12 referrals for further investigation where grants may have been paid to liquidated or dissolved companies. These have now been cleared with no outstanding issues.
- 1.6.8 The Counter Fraud team have 7 ongoing investigations regarding business grant payments. This includes working with national investigation teams where there is organised crime operating at a national level.
- 1.6.9 There has been a review conducted on a 10% random sample of grant recipients of the Local Restrictions Support Grant. This resulted in 58 businesses being contacted to confirm they still meet the grants criteria with 7 business not

responding within the agreed timescale and therefore payments have been suspended pending their response. 1 is currently under investigation and 1 business that no longer meets the criteria.

1.7 Legal Implications

- 1.7.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit of systems of risk management, governance and control in line with the PSIAS.
- 1.7.2 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.
- 1.7.3 The Local Government Act 1972 provides the Council with the ability to investigate and prosecute offences committed against them.

1.8 Financial and Value for Money Considerations

- 1.8.1 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.
- 1.8.2 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.

1.9 Risk Assessment

- 1.9.1 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.
- 1.9.2 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	Planned Quarter	Current Status	Audit Opinion	Scope of Audit and Findings
Training	2	Planning (Completion due in April)		
Community Safety	3	Complete	Adequate	<p>The audit established that the Safer and Stronger Communities Manager takes on an active role in the overall administration and management of the Community Safety Partnership. The 20/21 Strategic Assessment for the Partnership suitably recognises the situation across the Borough and nationally. The soundness of the Strategic Assessment is reflected in a detailed Annual Partnership Plan which recognises ongoing and any emerging issues.</p> <p>The audit established that the CSU department has no annual service plan in place and therefore no service objectives. By default there are also no measurable performance indicators in place for the service. A lack of service plans results in an inability to evidence priorities and achievements of responsibilities under the Community Safety Partnership.</p> <p>The current Anti-Social Behaviour Policy was found to be dated 2013 and consequently is of limited use. It therefore requires updating as soon as practical.</p> <p>The Safer and Stronger Communities Manager confirmed that no service standards are in place around anti-social behaviour complaints. Similarly, no procedure notes are available to detail to the essential steps needing to be applied for dealing with anti-social behaviour complaints. Testing also identified weaknesses around the management review of the Anti-Social Behaviour database. The Safer and Stronger Communities Manager only became aware of an ongoing updating issue with the database during the course of the audit indicating that management review of the database does not take place as a routine.</p> <p>5 Recommendations raised, 2 of which were High</p>

Health and Safety	2	Part 1: Complete Part 2: Complete	High	Reported to Audit Committee 18 th January.
Customer Services Review	Ongoing	Planning (To continue into 2021/22)		
S106 – Developer Contributions	4	Fieldwork		
Waste Contract	3	Draft Report		
Business Continuity	3	Planning (Due to continue into 2021/22)		

Tree Strategy	1	Complete	Adequate	<p>The Tree Safety Policy is up to date and includes comprehensive guidance on basic and expert tree inspections as well as procedure notes. The policy was updated in June 2020 to accurately reflect the expected timescales for Priority Category 1 assignments is 6 months, as advised by the contractor.</p> <p>Priority Sites listed in the Tree Safety Policy are subject to an Expert Inspection every three years and a basic Inspection for each year in between. Internal Audit were informed Leisure Services conduct a check to confirm they have received a completed inspection for all expected sites, however there is no evidence of the check or a database which lists when inspections have been completed. There were further inconsistencies with recording and documenting of inspections and subsequent works.</p> <p>Internal Audit were able to confirm for all other Officers that all but one had evidence of completion of a LANTRA Basic Trees Survey & Inspection Course in line with policy. We were informed that the one that could not be evidenced did not fill out the relevant training form, therefore it was not recorded electronically.</p> <p>8 Recommendations raised, of which 1 High, 6 Medium and 1 Low</p>
IT Governance	4	Planning		
Council Tax Reduction Scheme	3	Fieldwork		
Citizen Access System	3	Complete	Substantial	Reported to Audit Committee 18 th January.
Housing Benefit Claims	1	Complete	Substantial	Reported to Audit Committee 28 th September.
General Ledger	2	Draft Report		
Corporate Credit Cards	2	Complete	Substantial	Reported to Audit Committee 18 th January.

Parking	1	Complete	Adequate	Reported to Audit Committee 18 th January.
Risk Management	Ongoing	Fieldwork		
Performance Management	Ongoing	Fieldwork		

<p style="text-align: center;">Temporary Accommodati on</p>	<p style="text-align: center;">Additional</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">N/A</p>	<p>The review established that year on year expenditure showed an increasing demand, and while budgets have increased significantly in recent years, continuing increased demand has resulted in further budgetary pressure.</p> <p>Discussions with the Housing Options Support Manager and her equivalents across Kent established that the general procedures for the receipt and assessment of homeless applications remain the same as the previous year, and therefore any increases in the use of temporary accommodation is the result of increased demand rather than a change in assessment criteria or procedures.</p> <p>Notable differences were evident from the responses around the accommodation used during March and onwards. Those authorities either with their own accommodation previously purchased as temporary accommodation, or those with already ongoing initiatives to source temporary accommodation appear to have been better able to deal with the sudden increase in demand. This is likely due to them having less households in temporary accommodation to start with.</p> <p>Local Authorities which had invested heavily in recent years to purchase its own temporary accommodation found itself being less reliant on non-Council owned temporary accommodation and therefore were able to place nearly all of their households in temporary accommodation in the Borough. Similarly, where they have their own social lettings landlord schemes, which have been in place for several years. They have been less affected in March and onwards. Where authorities did not have their own temporary accommodation and no schemes to procure such, household were placed in relatively expensive nightly accommodation</p> <p>Under normal circumstances, Housing Officers would undertake a visit to a household shortly after being placed in temporary accommodation to ensure that a Housing Benefit Application form has been completed and submitted to the Housing Benefits team. Unfortunately due to Covid-19 restrictions, officers have not been undertaking those visits to the homeless applicants, and therefore have been reliant on the individual to download a Housing Benefit Application form, and to then complete and submit the form to the Council. Discussions with both the</p>
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				Benefits Manager and the Housing Options Support Manager established that it is likely that a number of days Housing Benefit have not been claimed for as applicants are not submitting applications for Housing Benefit for the full period of their time in temporary accommodation. 2 recommendations raised
Budget Monitoring, Savings and Income	Additional	Fieldwork		
Sickness Management	2	Postponed to 2021/22		
Recruitment and Retention	1	Postponed to 2021/22		
Local Plan	3	Postponed to 2021/22		
Housing Allocation Scheme	1	Postponed to 2021/22		(Project yet to start)

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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Criminal Standard Investigations

Fraud Type	Cases Closed	No Evidence of Fraud	Customer Error or Incorrect Entitlement	Fraud Proven	Permit Revoked	Removed from Housing List	Prevented	Reduction In Weekly Entitlement	Total Under/Overpayments	Increase In Liability	No of Penalty Charges	Total Penalty charge
SPD	81	47	34					£338.60	£22,930.21	£17,608.35	20	£1,400.00
CTRS	4	2	2					£52.11	£4,479.50	£2,709.72		
HB	13	13										
NNDR	2	1	1					£40.89	£21,994.81	£2,125.99		
Parking												
Housing	3	2				1						
Other	8	6	1				1					
Total	111	71	38			1	1	£431.60	£49,404.52**	£22,444.06	20	£1,400.00

** Includes £22,045.34 of underpayments also reported as part of the National Fraud Initiative.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 SCALE OF AUDIT FEES FOR 2021/22

The report informs Members of the scale of audit fees for 2021/22.

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 2021/22 accounts. The fee scale for the audit of the 2021/22 accounts is set against the backcloth of four recent Government-commissioned reviews of audit, including the Redmond review of local audit and financial reporting, and in the context of the significant tensions and pressures currently present in the audit market and profession.
- 1.1.4 PSAA propose a fee scale for 2021/22 of £38,048 leaving the appointed auditor and audited body to discuss as appropriate a revised fee where there are changes to the scope and depth of audit work required. Any proposed change to the fee must be approved by PSAA.

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 The fee scale set by PSAA for the audit of the 2021/22 accounts is £38,048. That said the initial fee for the audit of the 2019/20 accounts was £42,748 and this figure has been used for budgeting purposes.

1.4 Risk Assessment

1.4.1 None.

Background papers:

contact: Neil Lawley

Nil

Sharon Shelton
Director of Finance and Transformation

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON 2020/21 AUDIT PLAN AND AUDIT PROGRESS REPORT AND SECTOR UPDATE

This report introduces two papers from our external auditor. The two papers are the 2020/21 Audit Plan and Audit Progress Report and Sector Update.

1.1 2020/21 Audit Plan

1.1.1 Our external auditor is required to prepare an Audit Plan setting out the proposed approach to the audit of the Council's financial statements. The paper identifies a number of risks which the external auditor will consider as part of the audit, none of which are specific to this Council, but applicable to local authorities more generally; and no issues have arisen from their interim work to date which I need to draw to your attention. On the 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from 2020/21. The Code introduced a revised approach to the audit of Value for Money. The paper can be found at **[Annex 1]**.

1.2 Audit Progress Report and Sector Update

1.2.1 This paper provides the Audit Committee with a report on progress in delivering their responsibilities as the Council's external auditor. The paper also includes a summary of emerging national issues and developments that may be relevant to local authorities. The paper can be found at **[Annex 2]**.

1.2.2 The Engagement Lead and or their representative will be at the meeting to present the papers and to answer questions.

1.3 Legal Implications

1.3.1 As set out in the paper.

1.4 Financial and Value for Money Considerations

1.4.1 The indicative fee for 2020/21 of £58,248 represents an increase of £15,500 or 36% compared to the original fee for 2019/20 and more detail is needed as to the

justification for such an increase. Any increase above the original fee would be unwelcome budget growth and, in turn increase the savings target by an equivalent sum. At the time of the local government finance settlement MHCLG did commit £15m of additional funding to support the delivery of local audit where further detail and specifically individual council allocations is awaited.

1.5 Risk Assessment

1.5.1 As set out in the paper.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

Tonbridge & Malling Borough Council audit plan

Year ending 31 March 2021

Tonbridge & Malling Borough
Council
March 2021
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Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Finances

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The ongoing Covid-19 pandemic has and continues to have a significant impact financially and operationally. Moreover, in the short-term, the future for local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022.

The Council has set a balanced budget for 2021/22, supported by your ten year Medium Term Financial Plan. As at February 2021 the projected funding gap is £475,000. Adding to this sum those initiatives already built into the MTFs, but not yet delivered, totalling in excess of £500,000, means the overall gap for the four year period is effectively £975,000.

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- 1. A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- 1.1.5 More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
 - The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the COVID-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

Our response

We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

We will continue to provide you with sector updates via our Audit Committee updates.

We will liaise with the Council's valuer to clarify any potential material uncertainties in 2020-21.

Key matters

Factors

Impact of COVID-19 pandemic

The outbreak of the COVID-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has kept critical services going at the same time supporting the COVID-19 national effort. In response to the financial uncertainty created the pandemic, the Council recognised the need to revisit its plans for financial savings and in May 2020 agreed to an "essential spend only" policy for 2020/21. Restrictions on movement and activity have been in place in some form for all of 2020/21, with a significant impact on income and expenditure in the context of local government decision making. At TMBC this has had a particular impact on car parking income, temporary accommodation spend and leisure. While central government have provided and continue to provide a degree of direct and indirect support, and have recently introduced a 'roadmap' aimed at reducing current national restrictions in line with a locally administered vaccination programme, there remains considerable uncertainty both over the timing of restrictions being lifted and the broader medium term social and economic impact of the post Covid-19 recovery.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.

At this time we have not identified a specific COVID-19 significant audit risk (as we did for Local Government audits in 2019/20 which covered a number of risks including the availability of Council staff to produce accounts, year end stock take completion and valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continues and impacts year end accounting and auditing processes.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Tonbridge & Malling District Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *Terms of Appointment and Statement of Responsibilities* issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Tonbridge & Malling District Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue cycle includes fraudulent transactions (risk rebutted)
- Fraud in expenditure recognition
- Management override of controls
- Valuation of land and buildings including council dwellings and investment properties
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.2m (PY £1.2m) for the Council, which equates to approximately 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £60,000 for the Council.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness: We will continue to review and update our risk assessment over the course of the audit.

Audit logistics

Our interim visit took place in March and our final visit will take place between July and September, with dates to be confirmed. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit is £58,248 (PY: £57,160) for the Council. The fee subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	<p>Under ISA (240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and nature of the revenue streams at Tonbridge & Malling District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Tonbridge & Malling District Council, mean that all forms of fraud are seen as unacceptable 	We do not consider this to be a significant risk for Tonbridge & Malling District Council.
Fraud in expenditure recognition	Council	<p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p>	<p>We will:</p> <ul style="list-style-type: none"> • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; compare size and nature of accruals at year to the prior year to help ensure completeness and • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	<p>Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (including Council, Investment Properties)	Council	<p>You revalue your land and buildings on a rolling five yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£80m in 2019/20, including investment properties) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used.</p> <p>As part of our work in 2019/20 a material adjustment (£3.2m) was required following an updated valuation of the Larkfield Leisure Centre requested as part of the audit process, underlying the materiality of these areas to the financial statements.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • Consider whether or not to engage our own valuer (as in 2019/20) to challenge the work of management's expert • test revaluations made during the year to see if they had been input correctly into your asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	<p>Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£55 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified three recommendations in our 2019/20 audit in relation to the Council's estimation process for areas including impairment allowance, Larkfield Leisure Centre and investment properties.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, heritage assets and investment properties
- Depreciation
- Year end provisions and accruals, including NNDR appeals
- Finance lease liabilities
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments and borrowings

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Accounting estimates and related disclosures



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Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures, we have sent enquiries to management and to the Audit Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 18). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

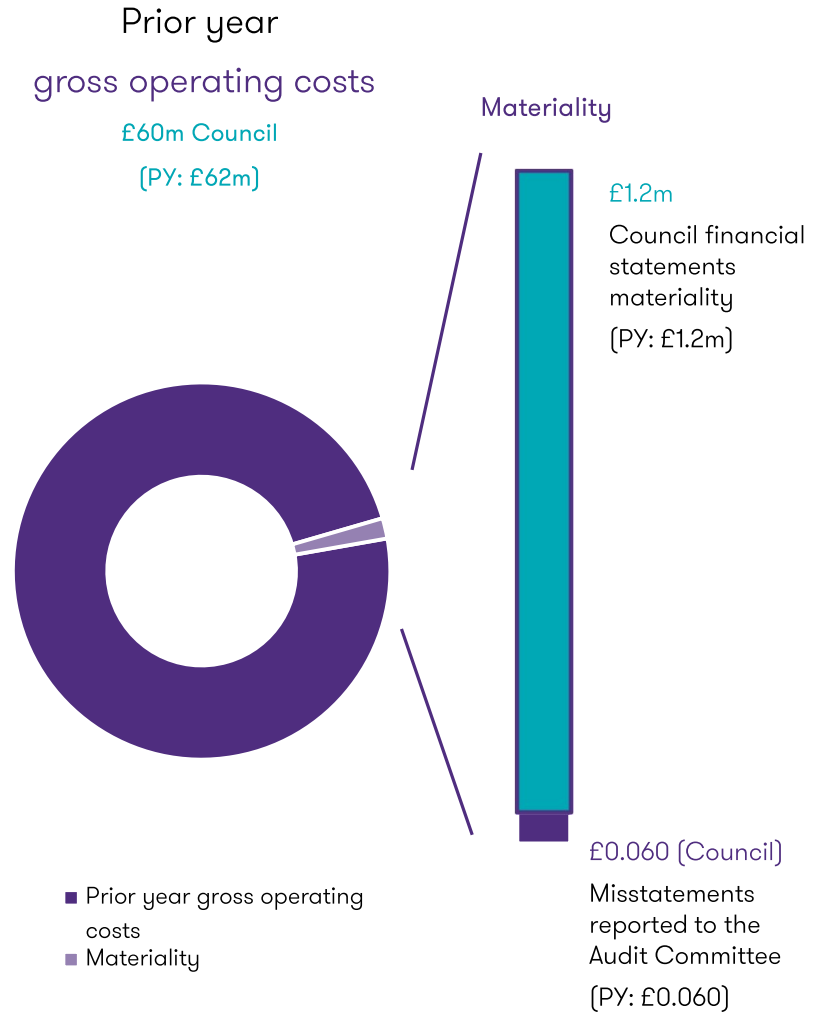
We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the previous financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.2m (PY £1.2m) for the Council, which equates to approximately 2% of your gross expenditure for the previous financial year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.060m (PY £0.060m) for the Council.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness

More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have not identified any risks of significant VFM weaknesses although we set out the areas of focus we intend to review to enable us to produce commentary on arrangements across all of the key criteria. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed

The Council's arrangements in response to the COVID-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working bought about by the pandemic;

The Council's arrangements for setting the Medium-Term Financial Strategy and achieving financial sustainability specifically how the council plans to achieve a balanced budget in the medium-term financial plan;

- The Council's arrangements for working with its key partners to deliver services more efficiently;
- The council's governance arrangement in terms of managing risk, responding to COVID-19 and ensuring overall service delivery; and as part of the work above
- Following up on any known issues with respect to leisure recovery and supplier management.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and
risk assessment

planning audit
March 2021

Audit
committee
6 April 2021

Audit Plan

Year end audit
July to Sep 2021*

Audit
committee
September 2021

Audit Findings
Report
Audit Opinion

Audit
committee
TBC

Auditor's
Annual
Report

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Paul Dossett, Engagement Lead

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorization of reports. Attendance of Audit Committee meetings supported by Manager as required.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

* The accounts timetable has not been agreed at the time of issuing this audit plan

Audit fees

In 2018, PSAA awarded a contract of audit for Tonbridge & Malling District Council to begin with effect from 2018/19. The fee agreed in the contract was £35,248. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 18, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Discussions are ongoing with the PSAA on the impact of the additional work on fees for 2020/21 and at the time of issuing this audit plan we are unable to confirm a proposed fee for 2020/21. When these discussions are finalised we will report back to the Audit Committee.

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	Actual Fee 2019/20	Initial indicative fee 2020/21
Scale fee	£35,248	£35,248
Fee variation	£21,912	£23,000
Total audit fees (excluding VAT)	£57,160	£58,248

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£35,248
Ongoing increases to scale fee first identified in 2019/20	£7,500
Additional fees relating to Covid-19 impact	£6,412
Additional fees relating to use of a Grant Thornton Valuer	£8,000
Audit fee 2019/20	£57,160
Revised 2020/21 baseline (£57,160 less COVID-19 and use of Grant Thornton Valuer)	£42,748
Additional work on Value for Money (VfM) under new NAO Code	£9,000
Increased audit requirements of revised ISAs	
- ISA 540 (revised), Auditing Accounting Estimates and Related Disclosures	£3,500
- ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements;	
ISA 700 (revised), forming an opinion and reporting on financial statements	£3,000
Proposed increase to agreed 2020/21 fee	£15,500
Total audit fees (excluding VAT)	£58,248

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Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of the Housing Benefit Subsidy Claim	12,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,000 in comparison to the total fee for the audit of £12,000 in comparison to the total fee for the audit of £12,000 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Tonbridge and Malling Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2021

31 March 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Your key Grant Thornton team members are:

Paul Dossett

Key Audit Partner

T 020 7728 3180

E paul.dossett@uk.gt.com

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact your Key Audit Partner.

Progress at March 2021

Financial Statements Audit

We undertook our planning work for the 2020/21 audit in March 2021, and we expect to begin our work on your draft financial statements in July.

Our planning fieldwork includes:

- Updated review of the Authority's control environment;
- Updated understanding of financial systems;
- Review of Internal Audit reports on core financial systems as required;

Understanding how the Authority makes material estimates for the financial statements; and

Early work on emerging accounting issues.

The results of our work to date are included in this report.

In March we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts following the September Audit Committee.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and will make more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Please see page 8 for further details.

Progress at March 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is substantially complete and on track for submission in line with the extended deadline. It should be noted that, in response to the impact of the Covid-19 pandemic, the DWP agreed an extension to the submission deadline to 31 March.

Our certification work for 2020/21 returns has not yet begun.

Meetings

We met with Officers in March as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee in our audit plan.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

PSAA will revert to both us and yourselves in the next few weeks about the outcome of their review of the costs implications of delivering the new value for money requirements and meeting the requirements of new auditing standards.

We would note that in December 2020, MHCLG committed £15m to support the delivery of local audit in 20/21. We understand that these funds will be allocated to councils shortly.

Audit Deliverables

2020/21 Deliverables

	Planned Date	Status
<p>Audit Plan -</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	March 2021	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the September Audit Committee.</p>	September 2021	Not yet due
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	September 2021	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body “has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources”. The auditor’s work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor’s Annual Report. It is therefore not a VFM arrangements ‘conclusion’ or an ‘opinion’ in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place ‘proper arrangements’ for securing VFM. The arrangements that fall within the scope of ‘proper arrangements’ are set out in ‘AGN 03 Auditors’ work on VFM arrangements’, which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;

- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

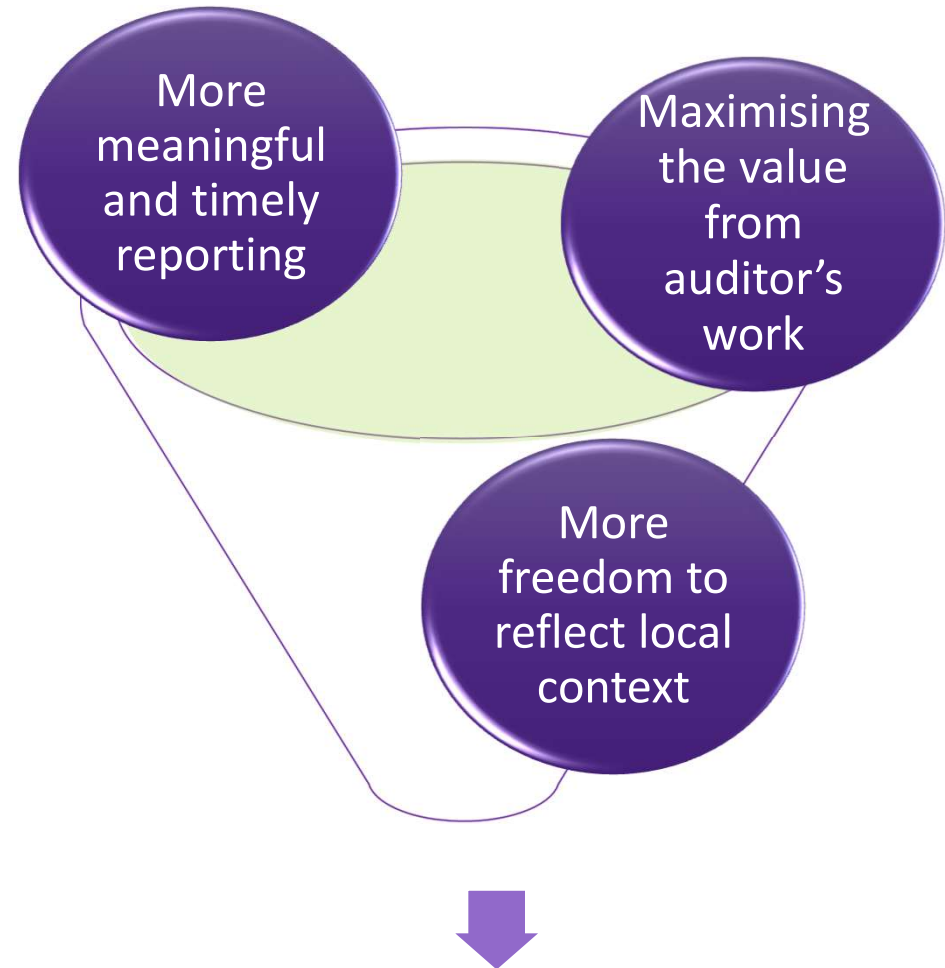
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the body evaluates the services it provides to assess performance and identify areas for improvement;
- how the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve; and where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.



The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;

- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit, Governance and Standards Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Lessons from recent Public Interest Reports – Grant Thornton

2020 will be remembered as a tumultuous year in local government. The Covid-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

1 Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.

2 Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.

3 Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.

4 Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The Public Interest Reports (PIRs) at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) were the first issued since 2016. All three are clear illustrations of some of the local government issues identified above. The audit reports are

comprehensive and wide-ranging and a lesson for all local authorities. There are some quotes that seem particularly apposite for all councils to consider. Local authorities have a variety of different governance models which range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other councils, it is less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

- 1 The context of local government in a Covid-19 world
- 2 Governance, scrutiny, and culture
- 3 Council leadership

[Lessons from Public Interest Reports \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)



Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

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There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask Paul Dossett for the full report:



Local government finance in the pandemic – National Audit Office

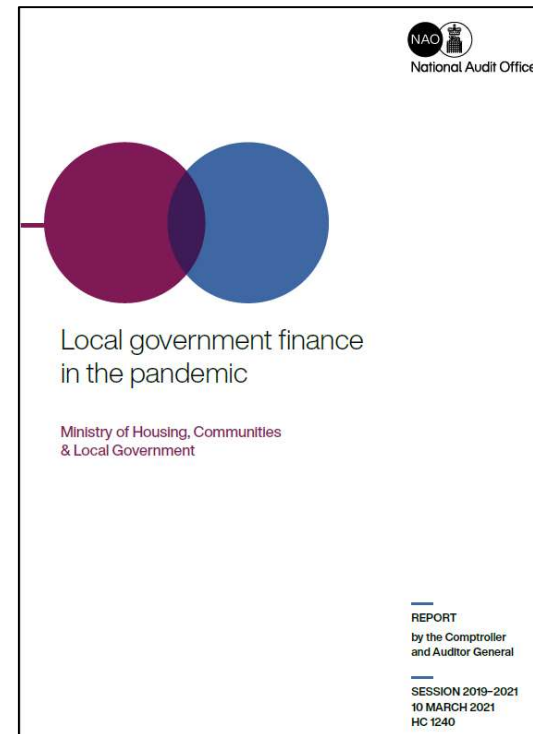
The National Audit Office (NAO) report, published in March, notes “The COVID-19 pandemic has been an unprecedented public health and economic emergency. Local authorities in England have made a major contribution to the national response to the pandemic, working to protect local communities and businesses, while continuing to deliver existing services. The pandemic has in turn placed significant pressure on local authorities’ finances, which in many cases were already under strain going into the pandemic.”

The NAO report examines if the Department’s approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector.

The NAO report concludes “Steps taken by the government, led by the Department, have supported local authorities in the COVID-19 pandemic response. The Department’s successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector has averted system-wide financial failure at a very challenging time and means that the Department has managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for next year is uncertain. Many authorities are setting budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.”

The NAO report found that “the combined impact on spending and non-tax income in 2020-21 is £9.7bn – equivalent to 17.6% of revenue expenditure. So far the government has announced £9.1bn of financial support, leaving a deficit of £605m.”



The full report can be obtained from the NAO website:

[Local government finance in the pandemic - National Audit Office \(NAO\) Report](#)

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report “Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies’ audits were completed by the revised target of 30 November.

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 Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July.

This year’s timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance.”



The news article can be found here:

[News release: 2019/20 audited accounts – PSAA](#)

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0>

Good practice in annual reporting – National Audit Office

The National Audit Office (NAO) state that the guide, launched in February, “Sets out our good practice principles for good annual reporting and provides illustrative examples taken from public sector organisations who are leading the way in this area.

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance

The NAO also state that the guide “provides further examples where bodies have made their context more understandable to the reader through use of graphics and clear language and signposting.”

However, The NAO observe “Done well, reporting in the public sector enables the public and Parliament to understand – with ease and confidence – an organisation’s strategy and the risks it faces, how much taxpayers’ money has been spent and on what, and what has been achieved as a result.”

Further, the NAO note “The significant impacts of the pandemic emerged in the UK in mid-March 2020. This means that, for many organisations, the reporting impact will be greater in 2020-21 than in the prior year. Transparent annual reporting will help stakeholders understand the impact of COVID-19 on an organisation’s strategy, plans and operational and financial performance.”



The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/good-practice-in-annual-reports-february-2021/>



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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

06 April 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 TREASURY MANAGEMENT PERFORMANCE UPDATE

The report provides details of investments undertaken and the return achieved in the first eleven months of the current financial year. The progress made in securing a medium-term investment is also reported.

1.1 Introduction

1.1.1 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.

1.2 Performance 1 April 2020 to 28 February 2021

1.2.1 A full list of investments held on 28 February 2021 is provided at **[Annex 1]** and a copy of our lending list is provided at **[Annex 2]**. The table below provides a summary of funds invested and income earned at the end of February.

	Funds invested at 28 Feb 2021 £m	Average duration to maturity Days	Weighted average rate of return %	Interest / dividends earned to 28 Feb 2021 £	Annualised return %	LIBID benchmark average from 1 April %
Cash flow	25.8	8	0.02	36,050	0.13	(0.07) 7Day
Core cash	16.0	108	0.40	86,850	0.54	0.02 3Month
Sub-total	41.8	46	0.17	122,900	0.28	(0.04) Ave
Long term	5.0		3.50	126,900	3.38	
Total	46.8		0.53	249,800	0.53	

Property funds pay dividends quarterly. The return quoted above is based on dividends received for the period April to December 2020 and on the return achieved since inception.

1.2.2 **Cash flow and core cash investments.** Interest earned of £122,900 from cash flow surpluses and core cash balances to the end of February is £2,100 better than the revised estimate for the same period. The authority also outperformed the LIBID benchmark by 32 basis points.

- 1.2.3 The benchmarking service provided by the Council's treasury advisor enables our performance to be gauged against Link's other local authority clients. An extract from the latest benchmarking data is provided at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority's investments. On 31 December 2020 the Council's return at 0.22% (purple diamond) was just below the local authority average of 0.24%. Based on the Council's exposure to credit / duration risk that return was in-line with Link's predicted return (between the green and red diagonal lines). The Council's risk exposure was also in-line with the local authority average.
- 1.2.4 **Long term investment.** Some 20% (£3m) of the Council's expected long term cash balances together with new money derived from the sale of assets and other windfalls is being invested in externally managed property funds. These investments generate an annual income stream and an expectation of capital appreciation over time sufficient to recoup fund entry and exit costs circa 8%.
- 1.2.5 Income from property funds of £126,900 has been received thus far in 2020/21 (quarter ending December 2020) which represents an annualised return of 3.38%. Income is £9,900 higher than the revised estimate for the same period.
- 1.2.6 Capital appreciation / depreciation is recorded in the table below. Commercial property values fell in the early part of 2020 as the economy suffered from the impact of Covid-19. In more recent months commercial property values have begun to rise again. All our property fund investments recorded capital appreciation in the period October 2020 to February 2021.

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) £	Current sale value February 2021 (c) £	Current sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	925,650	(74,350)
Lothbury (Primary, July 2017)	1,000,000	927,700	928,500	(71,500)
Hermes (Secondary, October 2017)	1,000,000	939,000	956,000	(44,000)
LAPF (Primary, June 2018)	1,000,000	922,200	887,500	(112,500)
Lothbury (Secondary, July 2018)	1,000,000	973,000	910,600	(89,400)
Total change in principal	5,000,000	4,684,100	4,608,250	(391,750)
Total dividends received to December 2020				539,550
Net benefit since inception				147,800

1.3 Medium-term Investment

- 1.3.1 The reports to Audit Committee in January 2018 and in January 2021 included commentary on diversified income (multi-asset) funds. Their use as an option for medium term investment (typically 5 years) has been included in recent annual investment strategies. Like our long-term (10 year) property fund investments, multi-asset funds aim to generate an above inflation return, negate volatility in capital values over the life of the investment and generate capital appreciation sufficient to recoup fund entry and exits costs. Recognising that these types of investment are unsuitable for short-term cash management purposes (maturities will be required to meet payment obligations) our strategy restricts the scale of investment to no more than 20% (£3m) of expected long term cash balances applied to medium-term investment and the same proportion applied to long-term investment.
- 1.3.2 Link, the Council's treasury advisor, has been engaged to source a suitable multi-asset fund (or funds) that strike an appropriate balance between risk and return and assist with the due diligence work that will need to be undertaken. The Council is aiming to achieve a return of 3% per annum, net of management fees, over a 5-year period. Link's engagement fee is £8,500 and is to be funded from a proportion of the excess income the investment will generate in 2021/22. The task is expected to take three months to complete and is scheduled to conclude in June 2021.
- 1.3.3 A proportion of any investment in a multi-asset fund will involve exposure to shares and bonds issued by companies. Environmental, social and corporate governance (ESG) issues will be explored as part of the fund selection process to ensure fund exposure takes due regard of such issues including the Council's adopted Climate Change Strategy.

1.4 Legal Implications

- 1.4.1 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 Asset Services are employed to provide independent advice on legislative and professional changes that impact on the treasury management function.

1.5 Financial and Value for Money Considerations

- 1.5.1 Our investment income estimates for 2020/21 were reduced by £237,000 when they were revised in January 2021. The reduction reflected the Bank Rate cut from 0.75% to 0.1% in March 2020 and a delay in the receipt of sale proceeds earmarked for additional property fund investment. The revised income total of £288,000 is expected to be achieved.

- 1.5.2 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.
- 1.5.3 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.
- 1.5.4 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.
- 1.5.5 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to 12 months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.
- 1.5.6 Diversified income funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property and cash). Nevertheless, the principal sum invested may fall because of adverse economic conditions or market events.

1.6 Risk Assessment

- 1.6.1 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.

Background papers:

contact: Mike Withey

Link Asset Services - benchmarking data.

Sharon Shelton
Director of Finance and Transformation

Tonbridge and Malling Borough Council - Investment summary 28 February 2021

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				6,000,000		12.81%			
95 day notice account					20/06/2019	TBD	95 Days	1,000,000	0.30				
95 day notice account					23/07/2019	TBD	95 Days	3,000,000	0.30			1,000,000	
Certificate of deposit					28/07/2020	11/06/2021	11 months	2,000,000	0.61			3,000,000	2,000,000
Close Brothers :	UK	A-	F2	6 months				2,000,000		4.27%			
Fixed term deposit					21/10/2020	21/07/2021	9 Months	2,000,000	0.50			2,000,000	
Coventry Building Society :	UK	A-	F1	6 months				3,000,000		6.41%			
Fixed term deposit					15/12/2020	15/03/2021	3 Months	3,000,000	0.04			3,000,000	
Goldman Sachs :	UK	A+	F1	6 months				2,000,000		4.27%			
Fixed term deposit					28/01/2021	28/10/2021	9 Months	2,000,000	0.17			2,000,000	
HSBC Bank :	UK	AA-	F1+	1 year				5,000,000		10.68%			
31 day notice account					02/12/2019	TBD	31 Days	3,000,000	0.10			3,000,000	
Fixed term deposit					19/02/2021	22/03/2021	31 Days	2,000,000	0.00			2,000,000	
National Westminster Bank :	UK	A+	F1	1 year				6,204,000		13.25%			
Certificate of deposit					06/07/2020	05/07/2021	1 year	2,000,000	0.42			2,000,000	
Deposit account					28/02/2021	01/03/2021	Overnight	4,204,000	0.01			4,204,000	
Santander UK Bank :	UK	A+	F1	6 months				4,000,000		8.54%			
Fixed term deposit					05/06/2020	05/03/2021	9 Months	2,000,000	0.48			2,000,000	
Fixed term deposit					23/07/2020	22/04/2021	9 Months	2,000,000	0.45			2,000,000	
Money Market Funds													
Blackrock MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	28/02/2021	01/03/2021	Overnight	50,000	0.00	0.11%	50,000		
BNP Paribas MMF - shares/units held	N/A	AAA	mmf (Eq)	5 years	28/02/2021	01/03/2021	Overnight	7,000,000	0.01	14.95%	7,000,000		
DWS Deutsche MMF - shares/units held	N/A	AAA	mmf	5 years	28/02/2021	01/03/2021	Overnight	2,519,000	0.02	5.38%	2,519,000		
Federated MMF - shares/units held	N/A	AAA	mmf	5 years	28/02/2021	01/03/2021	Overnight	4,000,000	0.01	8.54%	4,000,000		
Morgan Stanley MMF - shares/units held	N/A	AAA	mmf	5 years	28/02/2021	01/03/2021	Overnight	50,000	0.00	0.11%	50,000		
Property Funds													
Hermes Property Unit Trust :	N/A	N/A	N/A	N/A				1,000,000		2.14%			
Property fund units					29/09/2017	N/A	N/A	1,000,000	3.46				
Local Authorities' Property Fund :	N/A	N/A	N/A	N/A				2,000,000		4.27%			
Property fund units					29/06/2017	N/A	N/A	1,000,000	4.25				
Property fund units					30/05/2018	N/A	N/A	1,000,000	4.01			1,000,000	1,000,000
Lothbury Property Trust :	N/A	N/A	N/A	N/A				2,000,000		4.27%			
Property fund units					06/07/2017	N/A	N/A	1,000,000	2.96				
Property fund units					02/07/2018	N/A	N/A	1,000,000	2.84			1,000,000	1,000,000
Total invested								46,823,000		100.00%	25,823,000	16,000,000	5,000,000

Number of investments	22	Average investment value £		2,128,000	
Number of counter parties	15	Average counter party investment £		3,122,000	
Group exposures:		Core £	Cash £	Combined £	%
Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)		2,000,000	4,204,000	6,204,000	13.25
Bank of Scotland + Lloyds (MAX 20%)		-	-	-	-
Property Funds Total		£		5,000,000	%
					10.68

Total non-specified investments should be less than 60% of Investment balances 10.68%

Notes:
Property fund returns are based on dividends distributed from the start of each investment. Capital appreciation / depreciation is recorded elsewhere. Last update February 2021.

End date for notice accounts to be determined

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Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 26/02/21

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	6 months	6 months
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
Close Brothers Ltd	UK	AA-	A-	F2	Exempt	£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	6 months	6 months
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
Leeds Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
Nationwide Building Society	UK	AA-	A	F1	Exempt	£7m	6 months	6 months
Skipton Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
Yorkshire Building Society	UK	AA-	A-	F1	Exempt	£7m	100 days	100 days
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	A+	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
<p>[1] Reflects the lowest of the three rating agencies views (Fitch, Moody's and Standard and Poor's). Strategy requires non-UK sovereigns to be rated at least AA- and the UK rated at least A-. Non-UK sovereign limit of 20% or £7m per sovereign.</p> <p>[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.</p>								

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
CCLA Public Sector Deposit Fund	-	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

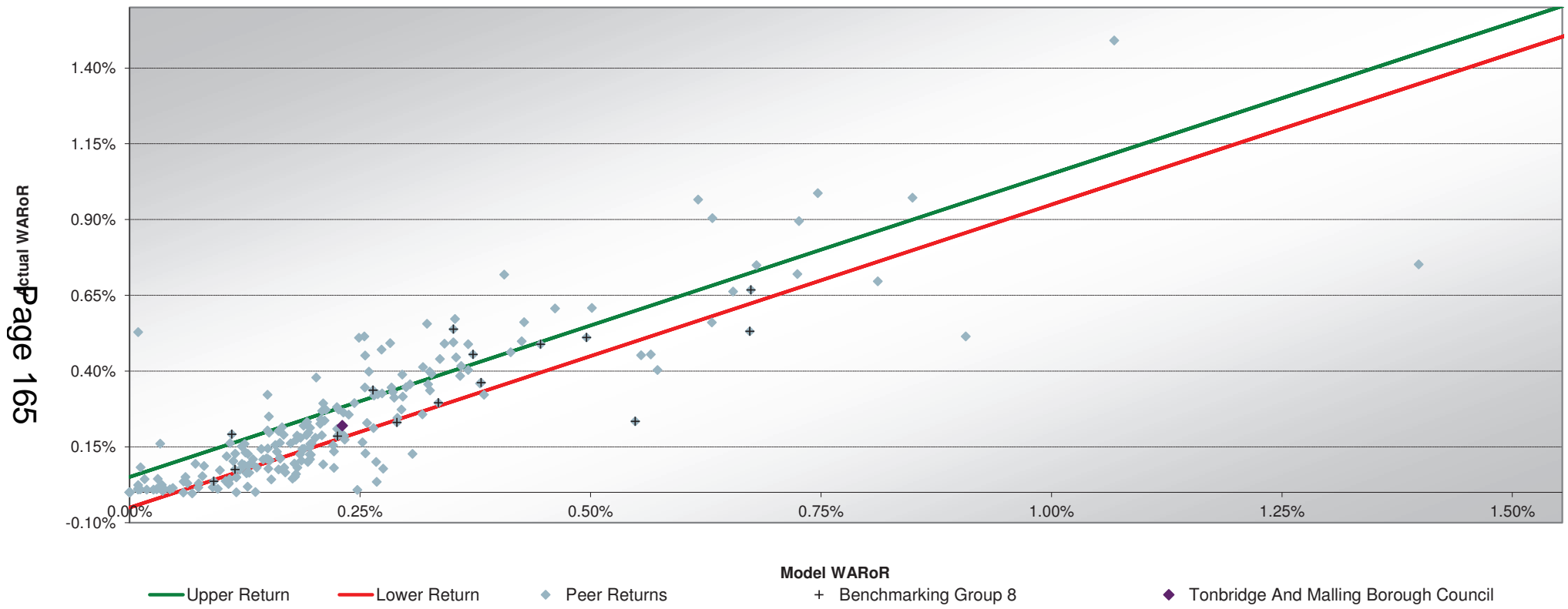
Approved by Director of Finance and Transformation
01 March 2021

CCLA Public Sector Deposit Fund added to Money Market Funds list

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Tonbridge And Malling Borough Council

Population Returns against Model Returns to December 2020



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Tonbridge And Malling Borough Council	0.22%	0.23%	-0.01%	0.18%	0.28%	Inline

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Agenda Item 13

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

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Agenda Item 14

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

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

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Agenda Item 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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