

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

16 July 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 in the Council Chamber, Gibson Drive, Kings Hill, on Monday, 26th July, 2021 commencing at 7.30 pm.

Details of how this meeting will be conducted following the removal of social distancing measures by Government from 19 July 2021 will be advised as soon as possible.

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

1. Apologies for absence

7 - 8

2. Declarations of interest 9 - 10
- Members in any doubt about such declarations are advised to contact Legal or Democratic Services in advance of the meeting*

3. Minutes 11 - 16
- To confirm as a correct record the Minutes of the meeting of Audit Committee held on 6 April 2021

4. External Quality Assessment 17 - 58
- This report informs Members of the results of the External Quality Assessment (EQA) of the Internal Audit service undertaken in February to March 2021.*

The consultant who carried out the assessment will attend the meeting to present outcomes and answer any questions.

Matters for Recommendation to Council

5. Local Code of Corporate Governance 59 - 82
- This report informs Members of the outcome of the annual review of the Local Code of Corporate Governance.*

(Note: The tracking in the annex is intentional).

Matters for Recommendation to the Cabinet

6. Treasury Management Update and Annual Report for 2020-21 83 - 108
- The report provides an update on treasury management activity undertaken during April to June of the current financial year. The treasury management outturn position for 2020/21 is also included in this report.*

Decisions to be taken under Delegated Powers

7. Risk Management 109 - 126
- This report provides an update on the risk management process and the Strategic Risk Register.*

8. The CIPFA Financial Management Code 127 - 136
- In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published "The CIPFA Financial Management Code". This report provides an overview of the Code and the outcome of a self-assessment to demonstrate compliance.*

9. Annual Governance Statement 2020/21 137 - 142

This report presents the Annual Governance Statement for the year ended 31 March 2021 for Members' endorsement. The Annual Governance Statement is signed by both the Leader of the Council and the Chief Executive and accompanies the Statement of Accounts 2020/21.

10. Statement of Accounts 2020/21 and progress update on the Audit of the Accounts 143 - 154

This report presents an unaudited set of Accounts for 2020/21 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom.

Due to its size Annex 1 – The Statement of Accounts – will be available as a supplement.

11. Review of the Effectiveness of Internal Audit 155 - 162

This report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function for the year 2020/21.

Matters submitted for Information

12. Opinion of the Chief Audit Executive on the Framework of Governance, Risk Management and Control, together with the Annual Internal Audit Report and Annual Counter Fraud Report for the year 2020/21 163 - 200

This report informs Members of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2020/21 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2020/21.

13. Grant Thornton Audit Progress Report and Sector Update 201 - 222

This report from the Council's external auditor, Grant Thornton, provides a progress report and update on emerging national issues and developments that may be of relevance to this local authority.

14. Consultation on the draft prospectus for the national scheme for local auditor appointments from April 2023 223 - 250

Public Sector Audit Appointments Limited (PSAA) have prepared a draft prospectus for the national scheme for local auditor appointments from April 2023. Feedback concerning PSAA proposed way forward is by way of a consultation which seeks responses to a set of questions.

15. Urgent Items 251 - 252

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

16. Exclusion of Press and Public 253 - 254

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

17. Urgent Items 255 - 256

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 Mrs F A Kemp (Chairman)
Cllr N Foyle (Vice-Chairman)

Cllr T Bishop
Cllr R I B Cannon
Cllr N J Heslop
Cllr P M Hickmott

Cllr D W King
Cllr J R S Lark
Cllr M R Rhodes

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Apologies for absence

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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

Tuesday, 6th April, 2021

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

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

PART 1 - PUBLIC

AU 21/12 DECLARATIONS OF INTEREST

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

AU 21/13 MINUTES

RESOLVED: That the Minutes of the meeting of the Audit Committee held on 18 January 2021 be approved as a correct record and signed by the Chairman.

MATTERS FOR RECOMMENDATION TO COUNCIL

AU 21/14 AUDIT COMMITTEE ANNUAL REPORT

The report of the Chairman of the Audit Committee aimed to inform the Council of the means by which the Committee had provided independent assurance to those charged with governance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. The report summarised the work carried out by the Committee during 2020/21 and concluded that the required assurance set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Guidance had been provided by the Audit Committee to those charged with governance.

RECOMMENDED: That the Annual Report be presented to the Council as independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

***Referred to Council**

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

AU 21/15 RISK MANAGEMENT

The report of the Management Team provided an update on the risk management process and the Strategic Risk Register (SRR).

Members were reminded that the Covid-19 outbreak and its ongoing impact across the Borough Council's service areas, businesses and the wider community had been added to the SRR. A number of risks had been re-categorised as RED and included:

- Financial position/budget deficit
- EU Transition and Economic Uncertainty (severely impacted by the Coronavirus Pandemic)
- Corporate Strategy and Savings and Transformation Strategy
- Waste Services
- Elections
- Local Plan

A schedule of ongoing risks and risks identified by Service Management Teams and Management Team since the last report to this Committee in January 2021 were set out in Annex 2 of the report.

RESOLVED: That the updates to the Strategic Risk Register since January 2021 be noted.

**AU 21/16 INFORMING THE AUDIT RISK ASSESSMENT FOR TONBRIDGE
AND MALLING BOROUGH COUNCIL 2020/21**

The report of the Management Team advised that, as part of their risk assessment procedures in respect of the audit of the financial statements, the Borough Council's external auditor was 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

This was undertaken by way of a series of questions and answers on each of these areas for Management to consider and formally respond. The Committee gave careful consideration to the series of questions and answers set out in Annex 1.

RESOLVED: That the responses set out at Annex 1 to the report be endorsed.

AU 21/17 INTERNAL AUDIT CHARTER

The report of the Chief Audit Executive presented the Internal Audit Charter for Member consideration and approval. It was noted that the Charter had been reviewed against both the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the Standards and continued to meet the requirements of a formal Charter. It was reported that the Management Team had approved the Charter on 9 March 2021.

RESOLVED: That the Internal Audit Charter, as attached at Annex 1 to the report, be approved.

AU 21/18 INTERNAL AUDIT AND FRAUD PLAN 2021/22

The report of the Chief Audit Executive presented the Internal Audit and Fraud Plan for 2021/22 which had been developed using a risk-based approach. Significant risk areas and priorities had been identified through a risk assessment which included reviews of the Strategic and Service Risk Registers, analysis of the wider environment, use of organisational knowledge and discussions with Service Heads and Directors. The Plan had been reviewed and endorsed by the Management Team.

RESOLVED: That the Internal Audit and Fraud Plan for 2021/22, as set out in Annex 1 to the report, be approved.

MATTERS SUBMITTED FOR INFORMATION

AU 21/19 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 2020 to March 2021. Progress made against the 2020/21 Plan was also reported and noted.

Particular reference was made to the Quality Assurance and Improvement Programme, the work of the Kent Intelligence Network, the investigation of fraud, bribery and corruption and to the management of grant applications by small businesses and businesses in the retail, hospitality and leisure sectors during the Covid-19 pandemic.

RESOLVED: That the report be received and noted.

AU 21/20 SCALE OF AUDIT FEES FOR 2021/22

The report of the Director of Finance and Transformation informed Members of the scale of fees for the audit of the 2021/22 accounts set by Public Sector Audit Appointments Limited (PSAA).

It was noted that the PSAA proposed a fee scale for 2021/22 of £38,048 leaving the appointed auditor and the audited body to discuss an appropriate adjustment to the fee following changes to the scope and depth of audit work required. However, Members were advised that Grant Thornton UK LLP had proposed an indicative fee of £58,248 for the audit of the 2020/21 accounts, albeit further discussions were required and had yet to be agreed.

RESOLVED: That the report be received and noted.

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

The report of the Director of Finance and Transformation introduced two papers from the external auditors, the 2020/21 Audit Plan and the Audit Progress Report and Sector Update. Mr Paul Dossett, Engagement Lead, presented the reports and answered questions raised by Members.

RESOLVED: That the report be received and noted.

AU 21/22 TREASURY MANAGEMENT PERFORMANCE UPDATE

The report of the Director of Finance and Transformation provided an update on treasury management activity undertaken and the returns achieved in the first eleven months of the financial year 2020/21. Progress made in securing a medium-term investment was also reported.

RESOLVED: That the report be received and noted.

AU 21/23 EXCLUSION OF PRESS AND PUBLIC

The Chairman moved, it was seconded and

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

PART 2 - PRIVATE**MATTERS SUBMITTED FOR INFORMATION****AU 21/24 INSURANCE CLAIMS HISTORY**

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

The report of the Director of Finance and Transformation informed Members as to the nature and volume of liability and property damage insurance claims submitted for the year ended 31 March 2021.

RESOLVED: That the report be received and noted.

AU 21/25 INTERNAL AUDIT AND COUNTER FRAUD SERVICE MODEL

(LGA 1972 Sch 12A Paragraph 1 – Information relating to an individual)

The report of the Director of Finance and Transformation provided an update on discussions held with Kent County Council in respect of the ongoing provision of Audit and Counter Fraud Services.

RESOLVED: That the report be received and noted.

AU 21/26 RISK MANAGEMENT

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

Further to the item on Risk Management considered earlier (Minute AU 21/15 refers) the report of the Management Team provided Members with the reasons behind the allocation of the Waste and Street Cleansing Contract as a RED rated item within the Council's Strategic Risk Register.

RESOLVED: That the report be received and noted.

The meeting ended at 9.00 pm

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 EXTERNAL QUALITY ASSESSMENT

This report informs Members of the results of the External Quality Assessment (EQA) of the Internal Audit service undertaken in February to March 2021.

1.1 Introduction

1.1.1 The Public Sector Internal Audit Standards (PSIAS), require that an independent EQA is undertaken at least every five years. The EQA provides an overall opinion on Internal Audit's conformance with the standards and an individual rating of Generally Conforms, Partially Conforms or Does Not Conform against the Standards and Code of Ethics.

1.1.2 While the EQA is a requirement of the PSIAS perhaps more importantly it provides this Committee with essential information and an independent view on the performance of Internal Audit, areas for development and the level of conformance with professional requirements including the Code of Ethics that forms part of the PSIAS. This allows the Committee to feel confident that the assurance provided by the work Internal Audit undertakes is safe and can be relied on.

EXECUTIVE SUMMARY

'The overall assessment resulting from the EQA is that the internal audit function *'generally conforms'* to the IIA's professional standards. The final EQA report is attached at **[Annex 1]**, with presentation slides of key findings at **[Annex 2]**.

1.1.3 Proposed actions and timescales have been developed for the recommendations raised in the assessment. These have formed an improvement plan that is attached at **[Annex 3]**.

1.2 Legal Implications

1.2.1 The PSIAS require that an independent external quality assessment is undertaken at least every five years.

1.3 Financial and Value for Money Considerations

1.3.1 Not applicable for this report as the fee was previously agreed.

1.4 Risk Assessment

1.4.1 Failure to undertake an EQA is not only non-conformance with the PSIAS but means the Committee has no independent view of the quality of Internal Audit work and how safe/reliable the assurance provided is.

Background papers:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive



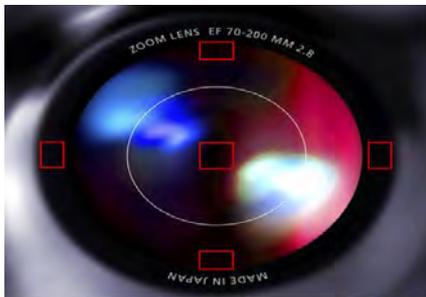
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Tonbridge and Malling Borough Council

External Quality Assessment

Internal Audit Services

Executive report – March 2021



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External Quality Assessment

Tonbridge and Malling Borough Council

BUSINESS
RISK
SOLUTIONS

Opinion: Tonbridge and Malling Borough Council internal audit service is delivering to a standard that **generally conforms** with the Public Sector Internal Audit Standards.

Key matters arising from the review:

Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of the Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,

Developing a clear alignment through working papers for each assignment to focus on agreed management objectives, significant risks and relevant key controls that will support the content of the assurance provided in the final audit report would enhance the focus of engagements.

- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by the Council within the Risk Management Policy.
- Development of an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council in which routine requirements which demonstrate quality and compliance with the Public Sector Internal Audit Standards become the basis for provision.
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.

Good Practice identified during the review

- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.
- Self-assessment identifies areas in which future development will be beneficial
- Appropriate attention is given to gaining feedback and demonstration of the quality of services through use of KPI's; these reflect a position where the service is well regarded.
- In respect of Counter Fraud – the service has developed a tri-partite arrangement with other Councils that provides independent review of services.

Executive summary

Tonbridge and Malling Borough Council (TMBC) internal audit services are delivered through an arrangement with Kent County Council (KCC) through which the service is managed and supported by an allocation of specific staff to complement commitment of a part-time employee and contracted-in resources. The staff allocated to the agreement reflect the skills and experience needs of each years' annual internal audit plan.

Services are managed by Jonathan Idle as Head of Internal Audit, who assumes the role of Chief Audit Executive for the purposes of this review. The team is supported by contracted in resources when required, with regard to both specialist services such as technology and more general audit provision.

The service has responded to the changes of focus in professional standards by developing an increasingly risk based approach with regard to planning and the completion of assignment work; the Internal Audit Manual has been updated in April 2020 to reflect this along with outcomes from the previous external quality assessment.

From an internal audit perspective, considerable advantage is to be gained from recognition of the Councils Risk Management processes and the effectiveness with which they operate. The degree to which those key controls which management feel reduce significant risk to an acceptable level (risk appetite) and arising from which the assurance sources that exist to demonstrate application are identified, represents a platform against which internal audit can provide an assurance opinion in relation to risk, governance and control. Alignment will enable internal audit plans and assignments to focus on the value of 'Control Risk' and thereby focus its attention on key controls and the assurances available to mitigate risk. Continuing to develop this thread will enhance both the efficiency and effectiveness of internal audit as well as its benefit to the Council.

Consequently, with a constantly changing risk environment, particularly as the service responds to the changing needs of TMBC post COVID-19; there is a need and opportunity for the internal audit service to continue to enhance its delivery through acting as a catalyst to ensure that robust risk management systems are operational, increasing its awareness of the assessment of risk and as a consequence informing its own approach. This will help ensure that internal audit focuses on the most appropriate areas and can demonstrate that it continues to provide a service that effectively contributes towards the achievement of the Council stated objectives, through the provision of independent assurance.

Current services are assessed to '**generally conform**' with the PSIAS standards. A series of specific recommendations are made in the report that follows to reflect building on the existing strengths in relation to resources, competency and delivery in order to enhance future services.

Overall assessment

1	RESOURCES		Excelling – Processes in this area are embedded within every-day practices and mostly reflect best practice that is consistent with PSIAS expectations.
Page 23	COMPETENCY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where further development would be beneficial.
	DELIVERY		Established – Processes in this area are generally compliant with the PSIAS and embedded within every-day practices; the EQA has identified a number of areas where a more consistent approach and further development would be beneficial.

Summary of good practice identified within EQA

Standard	Good practice identified	Observation
1000	An Internal Audit Charter has been established and agreed with management and the Audit Committee (AC).	The combination of the Charter and the Internal Audit Manual is comprehensive and establishes an appropriate framework against which internal audit services can be delivered in accordance with the PSIAS.
1100	Independence and objectivity	A process is in place regarding the identification and management of potential conflicts and/or declarations of interest.
311	The service has conducted internal assessment exercises regarding its performance.	Performance review is embedded within quality control procedures and supported by a staff appraisals process which identifies and supports performance development needs. Further quality assurance is undertaken which has highlighted a number of areas where the team feel development would be beneficial.
2020	Active engagement at Member and management level	Represents the establishment of a good understanding of key issues through routine interaction with TMBC including Members.
2030	The need for appropriate internal audit resources is supported by support from appropriate other sources.	This represents a firm basis for the successful delivery of the internal audit plan and the use of support, if required.
2040	A detailed internal audit manual is in place which aligns with the PSIAS.	Provides for a consistent methodology, within the service which is delivered through a series of templates.
2060	Reports are produced using a standard template which is consistently applied. Customer feedback is routinely requested.	Demonstration of a consistent approach to communication which is well received by management and the AC – effective follow-up ensures issues are not lost.
2300	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.	Effective supervision and review of progress ensures a consistent approach and delivery of the approved methodology.
2400	Internal auditors must communicate results of engagements.	The internal audit team routinely conducts exit meetings with regard to the findings emerging from engagements.

Part one



Compliance with the Public Sector Internal Audit Standards

Business Vision and Mission, Governance arrangements, Recognition of standards, Charter, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

	Issue identified	Recommended action	
<p>1</p> <p>Page 26</p>	<p>Internal Audit Charter (IAC) The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control.</p> <p>The Annual Opinion for 2019/20 stated in para 1.2.4 the “The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20”.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks and information from other assurance sources.</p>	<p>Consider the need to develop the annual internal audit plan for approval by the Audit Committee on the basis of a programme of internal audit activity required to provide an annual opinion reflecting the changing risk environment in which the Council operates and where independent assurance from internal audit is required in order to support the Governance Statement.</p> <p style="text-align: right;">PSIAS 1000</p>	<p style="background-color: red; color: white; text-align: center;">R</p> <p style="background-color: yellow; color: black; text-align: center;">Y</p> <p style="background-color: green; color: white; text-align: center;">G</p> <p style="background-color: yellow; color: black; text-align: center;">Y</p>
<p>2</p>	<p>Resources The internal audit plan for 2020/21 does not provide an allowance for management time that is required to provide planning, oversight and reporting in relation to internal audit activity.</p>	<p>Include an appropriate allocation of time for use by the CAE to deliver the specific managerial activities as outlined in the job description.</p> <p style="text-align: right;">PSIAS 1110</p>	<p style="background-color: green; color: white; text-align: center;">G</p>

	Issue identified	Recommended action
Page 27	<p>1 Audit Universe The self-assessment states that the current model reflects a “basic audit universe’ and an intention to “further develop an Authority wide audit universe to ensure key processes and systems are identified,”</p> <p>Further development of this approach would enhance internal audits’ ability to demonstrate a commitment to helping the Council achieve its objectives .</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded with the risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance.</p> <p>It would be beneficial therefore to increasingly align development of the internal audit planning system with the Councils risk management processes in order to ensure that resources were consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level</p> <p style="text-align: right;">PSIAS 2000/2010</p>
	<p>2 Skills matrix/training The team currently utilises a skills matrix that is aligned with both the Appraisals process and training needs.</p> <p>Consideration of the needs of the Council when compiling the Audit Plan would support decisions regarding the use of appropriate staff from KCC or when contracting in resources.</p>	<p>It would be beneficial to extend the current skills matrix to reflect the needs of the Council and therefore the experience and training required to provide the specified services.</p> <p>Extension of the matrix should include reference to mandatory training and whether this should be within the TMBC processes or reflected within the expectations of services provided by KCC.</p> <p style="text-align: right;">PSIAS 1210</p>



Competency continued

Issue identified	Recommended action
<p>3 Specialist skills Technical or complex audits require specific specialist skills which should be identified at the strategic planning stage.</p>	<p>We anticipate that the proposed new arrangements with KCC will allow a wider pool of staff to be made available to the Council.</p> <p style="text-align: right;">PSIAS 1210</p>
<p>4 Internal Audit Engagement Planning Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon the maturity of the current risk management processes adopted by the Council, discussions with the Executive, Audit Committees and Auditee pre-audit meetings. It has been observed within the EQA that the maturity of risk management processes at TMBC is variable with development still required at a Business Unit level.</p> <p>The degree to which principal inherent risks, key controls and assurances are identified will influence the degree to which risk-based audit can be developed; recognition of the three lines of defence methodology within the internal audit methodology will allow internal audit to increasingly identify the value of the 'Control Risk', being the difference between assessment of inherent and residual risk.</p> <p>This will allow internal audit resources to be more effectively targeted to areas of greatest potential risk exposure.</p> <p>The Executive Summary of each Audit Report contains an analysis of key risks and associated controls relevant to the particular focus of the audit.</p>	<p>Audit Plans and individual assignments should be increasingly constructed to reflect assessment of 'Control Risk' in order to focus reviews upon:</p> <ul style="list-style-type: none"> • Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist, • Risks where the value of 'Control Risk' is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and • Key Controls (rather than a wide hierarchy of controls which may have little impact on risk reduction or the achievement of business objectives). <p>By focusing on the risks and controls highlighted in the Engagement Plan for each review there may be efficiencies to be gained within assignment work through targeting resources to issues of greatest importance or concern.</p> <p style="text-align: right;">PSIAS 2010</p>

Competency continued

Issue identified	Recommended action
<p>5 Grading of recommendations Recommendations currently reflect 'priority' whilst being defined using terminology which is inconsistent with that used by the Council in its Risk Management Policy.</p>	<p>It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to the finding being Critical, Significant, Marginal or Negligible. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in assurance reports.</p> <p style="text-align: right;">PSIAS 2300/2410</p>

	Issue identified	Recommended action	
1	<p>Audit objective Engagement Plans currently contain a statement which reflects the objective of the audit, effectively being an intention to provide assurance regarding the area of review.</p> <p>PSIAS 2201 gives guidance regarding planning considerations and states that “In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance”.</p>	<p>It would be beneficial to revise the definition to focus on the Management Objective for the area under review as this would provide a direct alignment with identification of the significant risks which may impact upon achievement of established objectives and upon which the assurance opinion should be based.</p> <p style="text-align: right;">PSIAS 2201</p>	
2	<p>Work Programme The current methodology is based upon use of a template which focuses on ‘Scope areas’ identified within the engagement plan rather than the Significant Risks that have been identified in the planning process. PSIAS 2201 also states that internal audit must consider: a) The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level; and b) The adequacy and effectiveness of the activity’s governance, risk management and control processes compared to a relevant framework or model;</p>	<p>The internal audit service may benefit from introduction of a ‘Control Matrix’ style evaluation process in which there is a direct link between Management Objectives, Significant Risks upon which the audit will focus and the specific key controls that maintain the risk within the risk appetite of the Council.</p> <p style="text-align: right;">PSIAS 2300</p>	
3	<p>Focus on risk The PSIAS requires internal audit to provide a risk-based internal audit service. The current approach does recognise those risks contained in the Corporate Risk Register and provides for discussion of risks at an engagement level within planning meetings with responsible managers.</p>	<p>It appears that the use of the risk register process within the Council is variable. The provision of Internal Audit would benefit if managers were encouraged to identify risks, controls and assurances that exist at a local level as this would help to focus the attention of internal audit work.</p> <p style="text-align: right;">PSIAS 2210</p>	

Issue identified	Recommended action
<p>4 Working Papers</p> <p>Current processes are based on the use of a template system which utilises standard Microsoft Office applications.</p> <p>The review identified inconsistencies regarding completion of documentation and evidencing of supervision.</p>	<p>It is understood that a proposal to adopt the Pentana software approach under the future arrangements with KCC is currently going through approval and if approved will ensure that a standard process can be evidenced in future.</p> <p style="text-align: right;">PSIAS 2330</p>
<p>IA Opinions</p> <p>Internal Audit currently uses five levels of opinion – High, Substantial, Adequate, Limited and No – there appears only marginal difference in the supporting statements clarifying the differences between the latter levels.</p> <p>CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three.</p> <p>Within the profession, we believe it to be increasingly rare to find use of the latter category of ‘No’ on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are found, and a single negative opinion indicating that management action is required to restore the position within the risk appetite defined by the Board.</p>	<p>Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited and aligning this terminology with used within the Council's risk management process.</p> <p>Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified.</p> <p>Where a risk/recommendation of a ‘Critical’ nature is identified by internal audit this would indicate that a ‘Limited Assurance’ opinion should be used.</p> <p style="text-align: right;">PSIAS 2400</p>

	Issue identified	Recommended action
<p>6 .</p> <p>Page 32</p>	<p>HoIA Annual Report</p> <p>The terminology used by the HoIA to express an Annual Opinion is correct as this reflects opinion regarding risk management, governance and control.</p> <p>Standard 2060 does however also include reference to bringing the attention of the Audit Committee regarding assessment of the significant risks facing the organisation and any other assurance sources that have been recognised.</p> <p>CIPFA guidance has been issued in November 2020 regarding opinions in 2020/21 taking account of the impact of COVID.</p>	<p>It would be good practice to support the assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and future assurance mapping.</p> <p>In this form, the opinion would also better align with the required content of the Governance Statement.</p> <p style="text-align: right;">PSIAS 2060/2450</p>

Part two



Suggested enhancements for consideration

Suggested Enhancements for consideration

	Issue identified	Recommended action
Page 34	<p>1. Exit meeting template Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report.</p> <p>A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases.</p>	<p>It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies.</p> <p>This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>
	<p>Client surveys Progress has been made in obtaining feedback from auditees following each audit.</p>	<p>Internal Audit may find it useful to utilise an application such as Survey Monkey for collecting feedback, as this can prove to be an efficient means which supports an early response.</p>
	<p>3. Contractual arrangements Present arrangements for compliance with matters relating to standards of an Attribute nature within the PSIAS currently reflect administration of practices within both the Council and KCC governance arrangements. These may include matters such as Health & Safety, Data Protection, Declarations and Conflicts of Interest and Appraisal processes.</p> <p>It is standard practice within outsourced arrangements for the SLA to include a broad statement that places the responsibility on the contractor to comply with the Councils arrangements and for the contractor to ensure that it has arrangements in place to adhere to these requirements. Those of a professional nature will be reflected in a standard Internal Audit Charter that is adopted by all its clients.</p>	<p>It may be more efficient and transparent to develop an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council which could include expectations of the Council for compliance with Council procedures. Such requirements would then be managed using standard contract and performance monitoring arrangements.</p> <p>Matters of a professional nature regarding routine compliance with the Public Sector Internal Audit Standards should become matters covered within the Internal Audit Charter.</p>



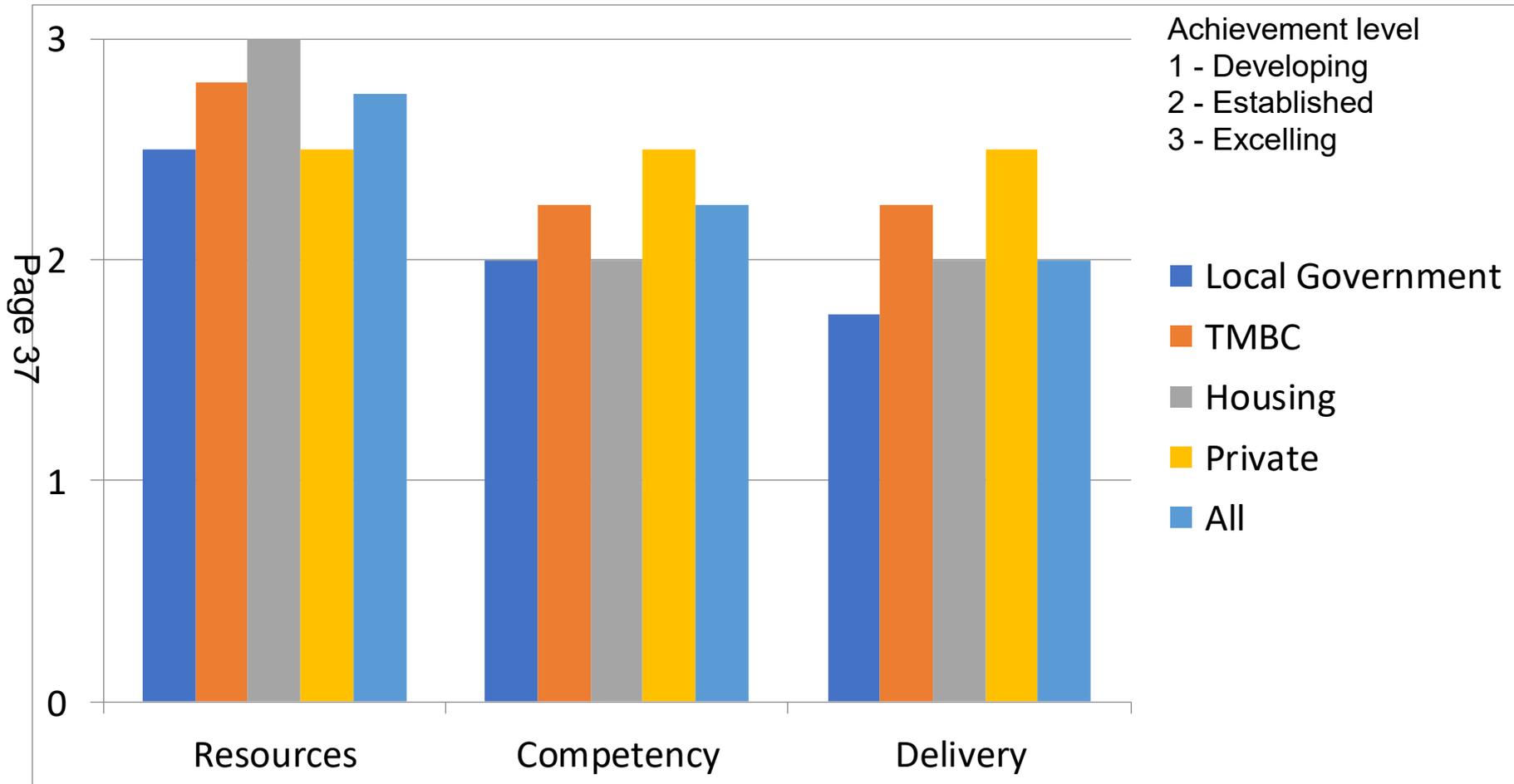
Suggested Enhancements for consideration

	Issue identified	Recommended action
Page 35	<p>4. Internal Audit Plan Current arrangements recognise those risks reflected in the risk management processes implemented by the Council</p>	<p>As Council arrangements for risk management mature the internal audit service should ensure that appropriate consideration of details of risks, controls and assurances contained within the system is transparent within the internal audit planning process in order to develop an evidenced alignment with the content of the Annual Governance Statement.</p>
	<p>Internal Audit Reports Internal Audit Reports use a standard template, which would be regarded as 'comprehensive' rather than 'concise' by many organisations. Best practice is tending to move towards a risk focused approach which highlights significant risk and the actions that will be undertaken to remedy any weaknesses or control issues. Standard reports should contain a reference to:</p> <ul style="list-style-type: none"> a) The audit being conducted in accordance with professional standards (PSIAS), and b) Any/no limitations being placed on the scope of the review. 	<p>We anticipate that the revised arrangements with KCC for the provision of a single standard audit process across all clients as this will help ensure a common standard is adopted by internal audit staff.</p> <p>Review of the template should therefore include consideration of the matters raised as well as the requirements of the Council and KCC, from a service and training point of view.</p>

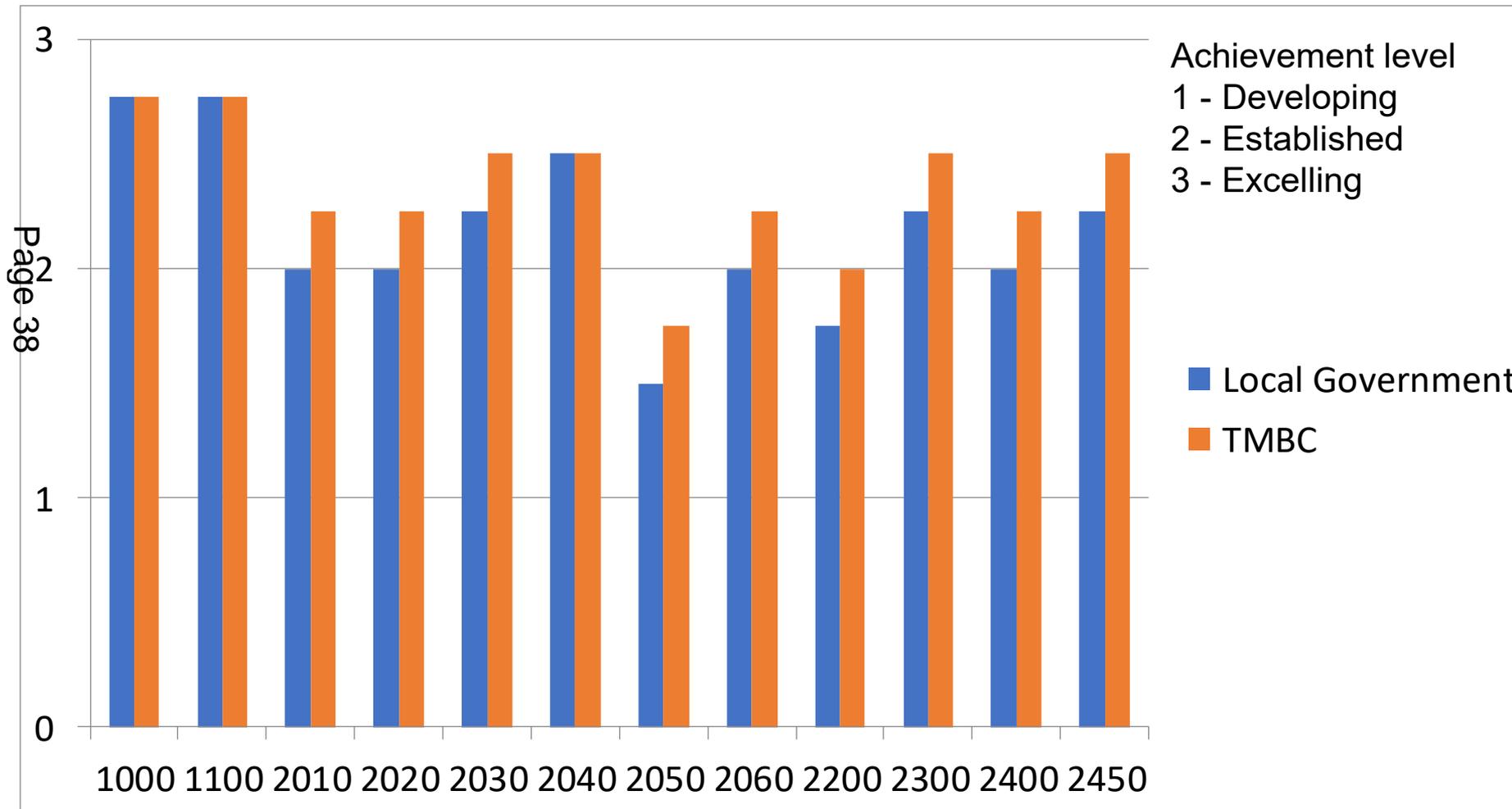
Part three



Benchmarking



Benchmarking - Industry analysis



Appendix

1. Summary of client feedback
2. Key IPPF/PSIAS standards assessed
3. Basis for EQA
4. Grading of recommendations

Summary stakeholder feedback

Question	Positive (%)	Negative (%)
I understand Internal Audit's role in the organisation and its purpose.	100	
Internal Audit is customer focused and understands what the organisation is trying to achieve.	100	
Internal Audit considers the viewpoints of the organisation when planning and undertaking reviews and aims to provide a good balance between assurance and good practice with opportunities for improvement.	100	
Internal audit has a presence in the organisation which is visible and approachable.	100	
The Internal Audit team provides a flexible and reliable service which adds value through the assurance audits and additional work it undertakes.	100	
Internal Audit makes you aware of any significant issues that occur during an audit on a timely basis and you have the opportunity to respond or provide additional information.	100	
Internal audit has the skills to provide appropriate assurance and advice to meet our needs?	100	
Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods.	100	
Average	100	

Conclusion:

Feedback from stakeholders confirms that Tonbridge and Malling Borough Council is considered to provide a good quality internal audit service whose brief is clearly understood and the assurance and advice that is provided is well regarded.

Other relevant observations

I consider the internal audits as a valuable assessment tool and an opportunity to consider where improvements are needed.

The whole approach is an opportunity to improve rather than a threat to identify shortcomings

The service we receive is extremely good and there is a good working relationship

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Issued	6	Returned	4	Response rate	67%
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Key PSIAS Standards assessed

(for benchmarking purposes)

Standard		Focus
1000	Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> . The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.
1100	Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.
2010	Planning	The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.
2020	Communication and approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.
2030	Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.
2040	Policies	The chief audit executive must establish policies and procedures to guide the internal audit activity.
2050	Co-ordination	The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.
2060	Reporting	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
2200	Engagement planning	Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.
2300	Work programme	Internal auditors must identify, analyse, evaluate, and document sufficient information to achieve the engagement's objectives.
2400	Communicating results	Internal auditors must communicate the results of engagements
2450	Overall opinions	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Basis for EQA

Compliance with IPPF/PSIAS

- **Resources**

Business Vision and Mission, Governance arrangements, Recognition of standards, Guidance, Procedures and Supervision, Terms of Engagement, Ethics and business conduct.

- **Competency**

Charter, Internal Audit Manual, Planning and Allocation of staffing, Recruitment (Numbers and skills), Training (Professional and Technical), Appraisal and Development

- **Delivery**

Client engagement and relationship, Directed led service, Terms of Engagement (Audit/Assignment Brief), Discussion of assurance and advisory opinions, Reporting at assignment and strategic levels

Grading of recommendations

- The grading of recommendations is intended to reflect the relative importance to the relevant standard within the Public Sector Internal Audit Standards (PSIAS).

Recommendation grading	Explanation
Enhance	The internal audit service must enhance its practice in order to demonstrate transparent alignment with the relevant PSIAS standards in order to demonstrate a contribution to the achievement of the organisations' objectives in relation to risk management, governance and control.
Review	The Internal audit service should review its approach in this area to better reflect the application of the PSIAS.
Consider	The internal audit service should consider whether revision of its approach merits attention in order to improve the efficiency and effectiveness of the delivery of services

- In grading our recommendations, we have considered the wider environment in terms of both the degree of transformation that is currently taking place as well as our assessment of the level of risk maturity that currently exists, as these will have a consequence for the conduct of internal audit planning as well as subsequent communication.

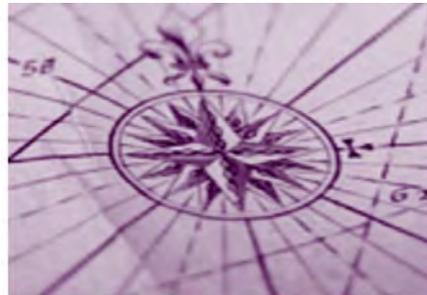
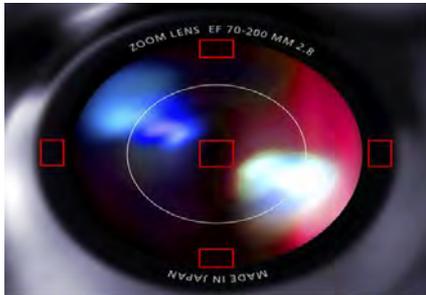


Page 45 Tonbridge and Malling Borough Council

External Quality Assessment

Internal Audit Services

Executive Summary for Audit Committee – 26 July 2021



External Quality Assessment

Tonbridge and Malling Borough Council

Opinion – **GENERALLY CONFORMS**

The logo consists of a blue rectangular box with a thin yellow border. Inside the box, the words "BUSINESS", "RISK", and "SOLUTIONS" are stacked vertically in white, bold, sans-serif capital letters. "RISK" is highlighted in yellow.

Good Practice identified during the review

- The service has developed a documented internal audit methodology and supporting templates that delivers a consistent service.
- Self-assessment identifies areas in which future development will be beneficial

Page 46
Appropriate attention is given to gaining feedback and demonstration of the quality of services through use of KPI's; these reflect a position where the service is well regarded.

- In respect of Counter Fraud – the service has developed a tri-partite arrangement with other Councils that provides independent review of services.

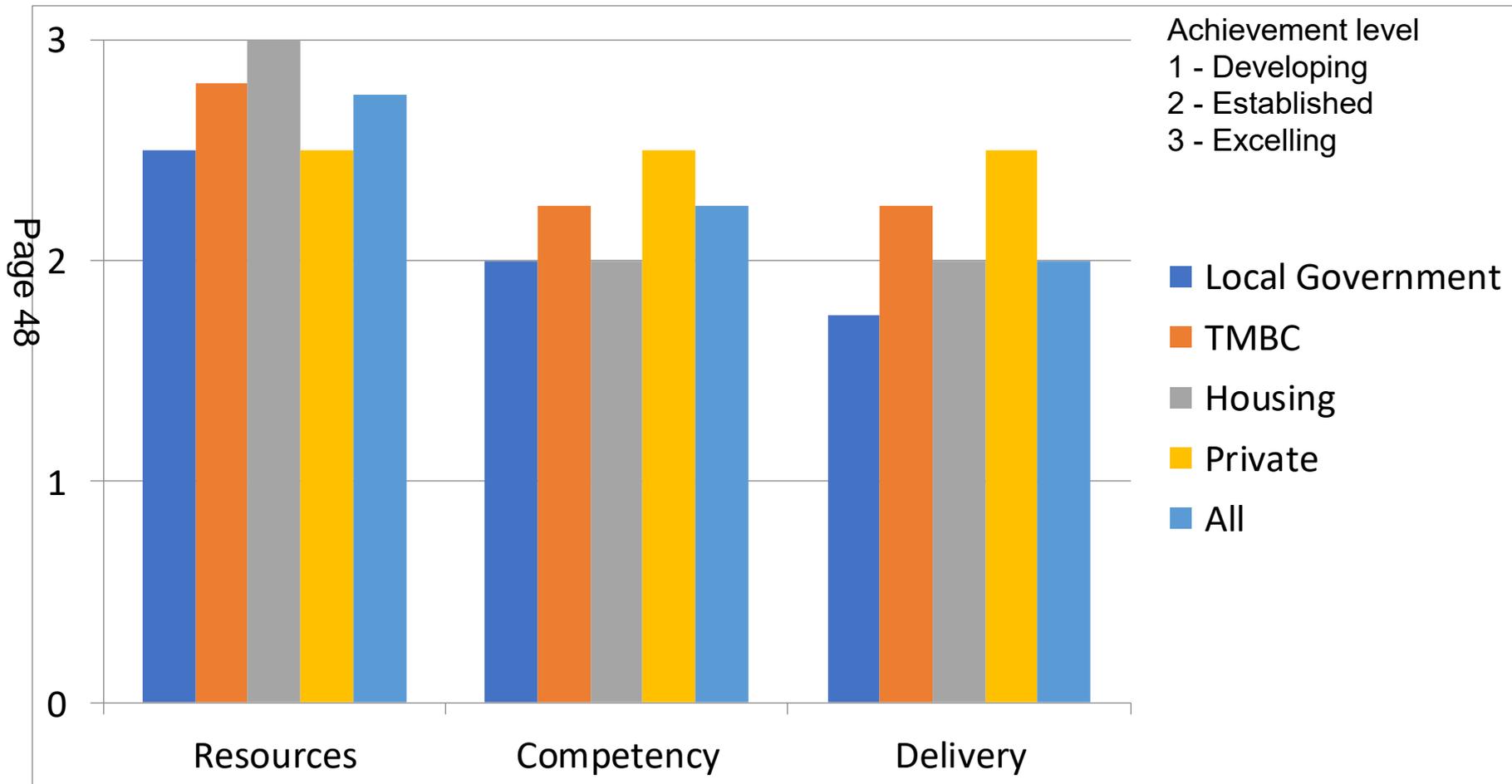
For the future

Development of an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council in which routine requirements which demonstrate quality and compliance with the Public Sector Internal Audit Standards becomes the basis for provision would aid oversight of the services provided.

Areas where further attention should be beneficial to the team and its clients

Key matters arising from the review:

- Increasing integration of the use by internal audit of risk-based techniques with the risk appetite of the Council particularly in terms of planning at a strategic and engagement level would be mutually beneficial,
- Developing a clear alignment through working papers for each assignment to focus on agreed management objectives, significant risks and relevant key controls that will support the content of the assurance provided in the final audit report would enhance the focus of engagements.
- Consideration should be given to the revision of the basis for expressing internal audit recommendations and opinions in line with risk impact definitions recognised by the Council within the Risk Management Policy.
- Review the narrative used within the Annual Opinion in the Head of Internal Audit Annual Report to reflect knowledge of both significant risks and other sources of assurance that are available and upon which reliance has been placed.



External Quality Assessment Response**ISSUES:**

Ref.	Issue	Recommendation	IACF Response and Action Plan
R1	<p>Internal Audit Charter (IAC) (Review)</p> <p>The IAC requires an annual assurance opinion to be provided to the Audit Committee regarding governance, risk management and control.</p> <p>The Annual Opinion for 2019/20 stated in para 1.2.4 the “The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2019/20”.</p> <p>Best practice reflects using a wider basis for the opinion reflecting the full knowledge of the CAE including significant risks and information from other assurance sources.</p>	<p>Consider the need to develop the annual internal audit plan for approval by the Audit Committee on the basis of a programme of internal audit activity required to provide an annual opinion reflecting the changing risk environment in which the Council operates and where independent assurance from internal audit is required in order to support the Governance Statement.</p>	<p><u>Response:</u></p> <p>Recommendation Agreed. Although not made explicit in the annual opinion areas of significant risk are considered in forming the opinion of the CAE.</p> <p><u>Action Plan:</u></p> <p>The Audit Pan for 2021/22 includes time allocated to an assurance mapping exercise. This will assist in forming the CAE’s opinion for the coming financial year.</p> <p><u>Action Owner:</u></p> <p>Chief Audit Executive Audit and Assurance Manager</p> <p><u>Due Date:</u></p> <p>March 2022</p>
R2	<p>Resources (Consider)</p> <p>The internal audit plan for 2020/21 does not provide an allowance for management time that is required to provide planning, oversight and reporting in relation to internal audit activity. (Consider)</p>	<p>Include an appropriate allocation of time for use by the CAE to deliver the specific managerial activities as outlined in the job description.</p>	<p><u>Response:</u></p> <p>Recommendation Agreed</p> <p><u>Action Plan:</u></p> <p>Allocation time for Audit and Fraud Management has been included in the 2021/22 audit plan that was agreed at April Audit Committee.</p> <p><u>Action Owner:</u></p> <p>Chief Audit Executive Audit and Assurance Manager</p> <p><u>Due Date:</u></p> <p>Complete</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C1	<p>Audit Universe (Review) The self-assessment states that the current model reflects a “basic audit universe’ and an intention to “further develop an Authority wide audit universe to ensure key processes and systems are identified,” Further development of this approach would enhance internal audits’ ability to demonstrate a commitment to helping the Council achieve its objectives.</p>	<p>The development of a comprehensive internal audit plan that reflects the significant risks that are recorded with the risk management system represents an essential feature of both strategic and operational internal audit planning as it acts as a basis for both ensuring attention on significant risks on a priority basis as well as providing an indication of the resources required to provide continuous independent assurance. It would be beneficial therefore to increasingly align development of the internal audit planning system with the Councils risk management processes in order to ensure that resources were consistently focused on areas where assurance is required regarding the operation of policies, procedures and controls that mitigate the significant risks to which the Council is exposed at an inherent level</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: The current needs assessment that is in place will be further developed and updated to ensure it is accurate and used in future annual planning exercises.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
C2	<p>Skills matrix/training (Consider) The team currently utilises a skills matrix that is aligned with both the Appraisals process and training needs. Consideration of the needs of the Council when compiling the Audit Plan would support decisions regarding the use of appropriate staff from KCC or when contracting in resources.</p>	<p>It would be beneficial to extend the current skills matrix to reflect the needs of the Council and therefore the experience and training required to provide the specified services. Extension of the matrix should include reference to mandatory training and whether this should be within the TMBC processes or reflected within the expectations of services provided by KCC.</p>	<p>Response: Recommendation Agreed. The current matrix is based on a range of business skills but does not include specific council systems or mandatory training.</p> <p>Action Plan: Develop the training matrices to include mandatory training and knowledge of key TMBC systems.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: September 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
C3	<p>Specialist skills (Consider) Technical or complex audits require specific specialist skills which should be identified at the strategic planning stage.</p>	<p>We anticipate that the proposed new arrangements with KCC will allow a wider pool of staff to be made available to the Council.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: An Inter Authority Agreement is to be approved and move to an outsourced/shared service planned in the coming months. Once complete, there will be a significant increase pool of auditors, skills and expertise available to TMBC.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
51	<p>Internal Audit Engagement Planning (Review) Whilst internal audit planning is being increasingly based upon a risk model as required by the PSIAS, the process largely depends upon the maturity of the current risk management processes adopted by the Council, discussions with the Executive, Audit Committees and Auditee pre-audit meetings. It has been observed within the EQA that the maturity of risk management processes at TMBC is variable with development still required at a Business Unit level. The degree to which principal inherent risks, key controls and assurances are identified will influence the degree to which risk-based audit can be developed; recognition of the three lines of defence methodology within the internal audit methodology will allow internal audit to increasingly identify the value of the 'Control Risk', being the difference between</p>	<p>Audit Plans and individual assignments should be increasingly constructed to reflect assessment of 'Control Risk' in order to focus reviews upon:</p> <ul style="list-style-type: none"> •Those risks where the assessment is that the combined impact/likelihood score has decreased most and where if assumptions are incorrect critical business risk exposure may exist, •Risks where the value of 'Control Risk' is limited or zero and as a result suggesting the controls may be insufficient or ineffective, and •Key Controls (rather than a wide hierarchy of controls which may have little impact on risk reduction or the achievement of business objectives). <p>By focusing on the risks and controls highlighted in the Engagement Plan for each review there may be efficiencies to</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Control's risk will be considered during planning engagements to identify key controls. To assist development of Risk Management practices may have to occur. Discussion with management and the risk management lead will take place to enhance this.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
	<p>assessment of inherent and residual risk. This will allow internal audit resources to be more effectively targeted to areas of greatest potential risk exposure. The Executive Summary of each Audit Report contains an analysis of key risks and associated controls relevant to the particular focus of the audit.</p>	<p>be gained within assignment work through targeting resources to issues of greatest importance or concern.</p>	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 52</p> <p>C5</p>	<p>Grading of recommendations (Review) Recommendations currently reflect 'priority' whilst being defined using terminology which is inconsistent with that used by the Council in its Risk Management Policy.</p>	<p>It would be beneficial to align future grading of recommendations with those impact definitions used within the risk management process relating to the finding being Critical, Significant, Marginal or Negligible. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in assurance reports.</p>	<p>Response: Recommendation Agreed - to be reviewed and implemented appropriately.</p> <p>Action Plan: The Internal Audit Management Team will review the recommendations and consider whether enhancements to the grading of recommendations are beneficial for TMBC.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
D1	<p>Audit objective (Review) Engagement Plans currently contain a statement which reflects the objective of the audit, effectively being an intention to provide assurance regarding the area of review. PSIAS 2201 gives guidance regarding planning considerations and states that "In planning the engagement, internal auditors must consider the objectives of the activity being reviewed and the means by which the activity controls its performance".</p>	<p>It would be beneficial to revise the definition to focus on the Management Objective for the area under review as this would provide a direct alignment with identification of the significant risks which may impact upon achievement of established objectives and upon which the assurance opinion should be based.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Engagement plan templates will be amended to state service objectives rather than objectives set for the audit engagement.</p> <p>Action Owner: Audit and Assurance Manager</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
			<p>Due Date: September 2021</p>
D2	<p>Work Programme (Review) The current methodology is based upon use of a template which focuses on 'Scope areas' identified within the engagement plan rather than the Significant Risks that have been identified in the planning process. PSIAS 2201 also states that internal audit must consider:</p> <p>a) The significant risks to the activity, its objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level; and</p> <p>b) The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant</p>	<p>The internal audit service may benefit from introduction of a 'Control Matrix' style evaluation process in which there is a direct link between Management Objectives, Significant Risks upon which the audit will focus and the specific key controls that maintain the risk within the risk appetite of the Council.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Once work programmes and audit documentation are recorded on the audit management software, Pentana, the need for word templates will be removed. Engagement plans and work programmes will be focused on Objectives/Risks/Controls as opposed to scope areas</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: October 2021</p>
D3	<p>Focus on risk (Consider) The PSIAS requires internal audit to provide a risk-based internal audit service. The current approach does recognise those risks contained in the Corporate Risk Register and provides for discussion of risks at an engagement level within planning meetings with responsible managers.</p>	<p>It appears that the use of the risk register process within the Council is variable. The provision of Internal Audit would benefit if managers were encouraged to identify risks, controls and assurances that exist at a local level as this would help to focus the attention of internal audit work.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Internal Audit will continue to engage with service areas to promote the use of operational risk registers to improve risk based Internal Audit.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
			<p>Due Date: December 2021</p>
D4	<p>Working Papers (Consider) Current processes are based on the use of a template system which utilises standard Microsoft Office applications. The review identified inconsistencies regarding completion of documentation and evidencing of supervision.</p>	<p>It is understood that a proposal to adopt the Pentana software approach under the future arrangements with KCC is currently going through approval and if approved will ensure that a standard process can be evidenced in future.</p>	<p>Response: Recommendation Agreed. There is currently no audit management software in use at TMBC as it is cost prohibitive for the size of plan and budget of the function.</p> <p>Action Plan: Once an outsourced/shared service is in place TMBC will have access to Pentana software for the planning, execution, and reporting of audit engagements.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
D5	<p>IA Opinions (Review) Internal Audit currently uses five levels of opinion –High, Substantial, Adequate, Limited and No –there appears only marginal difference in the supporting statements clarifying the differences between the latter levels. CIPFA guidance on setting definitions relating to opinions suggests there is general recognition that four levels is sufficient with some organisations now using three. Within the profession, we believe it to be increasingly rare to find use of the latter category of ‘No’ on the basis that no system is totally flawed. We therefore believe the profession is moving towards acceptance of the use of three levels with the highest two levels confirming assurance, albeit with a caveat if other than significant control risk issues are</p>	<p>Internal Audit should consider whether there is merit to moving towards three levels of opinion –Substantial, Adequate and Limited and aligning this terminology with used within the Council’s risk management process. Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified. Where a risk/recommendation of a ‘Critical’ nature is identified by internal audit this would indicate that a ‘Limited Assurance’ opinion should be used.</p>	<p>Response: Recommendation Agreed This will be considered while acknowledging that stakeholder and client expectations are also relevant to the review. As a shared service a key factor should also be that having one basis for reporting opinions is paramount to consistency and efficiency of the service.</p> <p>Action Plan: The Internal Audit Management Team will review the recommendation and consider whether moving to three levels of opinion and updating the issue grading definitions are beneficial for TMBC and external clients.</p> <p>Dependent upon this review, any proposed changes</p>

Ref.	Issue	Recommendation	IACF Response and Action Plan
	found, and a single negative opinion indicating that management action is required to restore the position within the risk appetite defined by the Board.		<p>would be discussed with senior management from TMBC, proposed to Audit Committee.</p> <p>Action Owner: Head of Internal Audit Audit and Assurance Manager</p> <p>Due Date: December 2021</p>
D6	<p>HoiA Annual Report (Review)</p> <p>The terminology used by the HoiA to express an Annual Opinion is correct as this reflects opinion regarding risk management, governance and control. Standard 2060 does however also include reference to bringing the attention of the Audit Committee regarding assessment of the significant risks facing the organisation and any other assurance sources that have been recognised. CIPFA guidance has been issued in November 2020 regarding opinions in 2020/21 taking account of the impact of COVID.</p>	<p>It would be good practice to support the assurance opinion in relation to risk management, governance and control with broader reference to significant risks and other sources of assurance that are available, including reference to those within the risk management process and future assurance mapping. In this form, the opinion would also better align with the required content of the Governance Statement.</p>	<p>Response: Recommendation Agreed. This will enhance the Annual Internal Audit Report and Opinion.</p> <p>Action Plan: For the 2020-21 Annual Opinion, other sources of assurance will be considered where known, and included within the overall assessment for the Head of Internal Audit Opinion.</p> <p>Moving forward, the Internal Audit service will work closely with services in developing assurance mapping across the Council. There is time included in the 2021/22 Audit Plan to undertake this work.</p> <p>Action Owner: Audit and Assurance Manager</p> <p>Due Date: August 2021</p>

SUGGESTED ENHANCEMENTS FOR CONSIDERATION

Ref.	Issue	Recommendation	IACF Response and Action Plan
1	<p>Exit meeting template Discussions with management regarding the findings identified within engagements are discussed with management and based upon extracts of a first draft of the report. A summary of the discussion is then recorded in a narrative note, although file review identified this was not on file in two cases.</p>	<p>It may be beneficial to introduce a standard template on which to record findings/recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: A template will be prepared. It will be communicated to the team, incorporated in the Audit Manual and its' usage monitored during quality assurance reviews as business as usual.</p> <p>Action Owner: Head of Internal Audit Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
2	<p>Client surveys Progress has been made in obtaining feedback from auditees following each audit.</p>	<p>Internal Audit may find it useful to utilise an application such as Survey Monkey for collecting feedback, as this can prove to be an efficient means which supports an early response.</p>	<p>Response: Recommendation Agreed.</p> <p>This can be considered. Another method has previously been reviewed, however there were data /GDPR issues associated with its usage.</p> <p>Action Plan: The use of MS Forms Survey will be progressed. The template will be prepared and utilised as part of the ongoing feedback arrangements relating to each audit at the earliest opportunity. Summary</p> <p>Action Owner:</p>

			<p>Head of Internal Audit Business Support Officer</p> <p>Due Date: July 2021</p>
3	<p>Contractual arrangements Present arrangements for compliance with matters relating to standards of an Attribute nature within the PSIAS currently reflect administration of practices within both the Council and KCC governance arrangements. These may include matters such as Health & Safety, Data Protection, Declarations and Conflicts of Interest and Appraisal processes. It is standard practice within outsourced arrangements for the SLA to include a broad statement that places the responsibility on the contractor to comply with the Councils arrangements and for the contractor to ensure that it has arrangements in place to adhere to these requirements. Those of a professional nature will be reflected in a standard Internal Audit Charter that is adopted by all its clients.</p>	<p>It may be more efficient and transparent to develop an appropriate Service Level Agreement for the provision of a future internal audit service by Kent County Council which could include expectations of the Council for compliance with Council procedures. Such requirements would then be managed using standard contract and performance monitoring arrangements. Matters of a professional nature regarding routine compliance with the Public Sector Internal Audit Standards should become matters covered within the Internal Audit Charter.</p>	<p>Response: Recommendation Agreed. Management of the service has historically been in place under secondment agreements.</p> <p>Action Plan: An Inter Authority Agreement is currently being agreed that will formalise the management and running of the TMBC Internal Audit and Counter Fraud Team.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date: September 2021</p>
4	<p>Internal Audit Plan Current arrangements recognise those risks reflected in the risk management processes implemented by the Council</p>	<p>As Council arrangements for risk management mature the internal audit service should ensure that appropriate consideration of details of risks, controls and assurances contained within the system is transparent within the internal audit planning process in order to develop an evidenced alignment with the content of the Annual Governance Statement.</p>	<p>Response: Recommendation Agreed</p> <p>Action Plan: Internal Audit will keep under consideration as practice develops.</p> <p>Action Owner: Chief Audit Executive Audit and Assurance Manager</p>

			<p>Due Date:</p> <p>March 2022</p>
5	<p>Internal Audit Reports</p> <p>Internal Audit Reports use a standard template, which would be regarded as 'comprehensive' rather than 'concise' by many organisations. Best practice is tending to move towards a risk focused approach which highlights significant risk and the actions that will be undertaken to remedy any weaknesses or control issues. Standard reports should contain a reference to:</p> <p>a)The audit being conducted in accordance with professional standards (PSIAS), and</p> <p>b)Any/no limitations being placed on the scope of the review.</p>	<p>We anticipate that the revised arrangements with KCC for the provision of a single standard audit process across all clients as this will help ensure a common standard is adopted by internal audit staff.</p> <p>Review of the template should therefore include consideration of the matters raised as well as the requirements of the Council and KCC, from a service and training point of view.</p>	<p>Response:</p> <p>Recommendation Agreed. This will enhance existing reporting arrangements.</p> <p>Action Plan:</p> <p>Relevant inserts will be incorporated into report templates.</p> <p>Action Owner:</p> <p>Chief Audit Executive Audit and Assurance Manager</p> <p>Due Date:</p> <p>September 2021</p>

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Chief Executive and Director of Central Services

Part 1- Public

Matters for Recommendation to Council

1 LOCAL CODE OF CORPORATE GOVERNANCE

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

1.1 Introduction

1.1.1 The Coronavirus pandemic necessitated a strategic response from the Council to guide the Council's recovery from the pandemic. This resulted in the production of a Corporate Strategy Addendum which was adopted in 2020.

1.1.2 Throughout the course of 2020/21 the Council has also adopted or refined a number of its procedures and policies which necessitate minor amendments to the Local Code including:

- The adoption of a Climate Change Strategy and annual Action Plans
- The replacement of the Records Management policy with a Data Retention Policy, to seek to ensure compliance with GDPR regarding the duration that the Council can hold the personal data of its residents

1.1.3 Audit Committee may recall the central government review of Ethical Standards in Local Government in January 2019 which was highlighted in the last report on the Local Code (July 2020). Whilst that review made a number of recommendations, these will require implementation through primary legislation before they take effect, if Government decides to adopt any or all of them. At the time of writing, no action had been taken by central government in this regard and therefore no changes are proposed on these matters.

1.1.4 The Council's last "Peer Review Challenge" took place in 2013/14 and it is therefore proposed that reference to this is now removed from the Local Code.

1.2 Legal Implications

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

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

1.3 Financial and Value for Money Considerations

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

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Recommendations

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

Background papers:

contact: Kevin Toogood

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

Julie Beilby
Chief Executive

Adrian Stanfield
Director of Central Services

Local Code of Corporate Governance	Supporting Evidence
1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.	
1.1 Behaving with Integrity	
<p>Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organization</p>	<p>The Council has Codes of Conduct for both Members and Officers. The Member code is founded upon the seven Principles of Public Life (the Nolan Principles). This is enforced (where necessary) through the Council's Joint Standards Committee. The Officer code is enforced (where necessary) through disciplinary procedures.</p> <p>In addition the Council has:</p> <ul style="list-style-type: none"> • An Equalities Policy • a protocol for member/ officer relations • A Declaration of Interest Register for Members and for staff • A Register of Gifts and Hospitality offered to Members and staff • Financial Procedure Rules • Contracts Procedure Rules • A publicised complaints procedure • A fraud-aware culture, and an anti-fraud and corruption policy which is reviewed and updated annually.
<p>Ensuring members take the lead in establishing specific standard operating principles or values for the organization and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life</p>	<p>The Council's constitution sets out clearly the standard operating procedures, and any delegation of responsibility from Council (and Cabinet) and the decision making powers of the Council, cabinet and its committees and boards.</p> <p>The Seven Principles of Public Life are embedded within the Constitution and form part of the Members' Code of Conduct.</p>
<p>Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively</p>	<p>The Council's constitution clearly sets out the process for holding the executive to account through the debate of items at committees, and a system of reporting to the Council's Overview & Scrutiny committee.</p> <p>The Council has a Corporate Strategy for 2020-2023 which sets out an overarching vision for the Council.</p>

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

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

	<p>Legal staff receive regular training and updates when new powers become available to the Council.</p> <p>The Council also strives to utilise its statutory powers to work in the public interest and to the full benefit of its citizens, particularly in relation to regulatory activity.</p> <p>All committee reports include a section to ensure any legal implications are fully analysed when making decisions.</p> <p>In addition, many committees (in particular where the Council is carrying out regulatory functions) sit with a legal advisor.</p>
<p>Dealing with breaches of legal and regulatory provisions effectively</p>	<p>Staff in enforcement roles are appropriately trained and (where necessary) professionally qualified in the relevant field.</p> <p>The Council has individual service enforcement policies which set out how breaches are to be investigated and enforced. The Council has also adopted a Corporate Enforcement Policy. Investigations are carried out with the assistance of legal advice where needed. Any prospective prosecution is assessed in accordance with the Code for Crown Prosecutors and considered by a senior lawyer before a decision is made.</p> <p>Enforcement staff are encouraged to work closely with the Council's legal team to ensure that the most effective use is made of the enforcement powers available to the Council.</p> <p>In committees where the Council is carrying out a regulatory function, the committee usually sits with a legal advisor.</p> <p>The Council has appointed a Data Protection Officer, in accordance with GDPR, to ensure that following an internal investigation data breaches are reported to the ICO where necessary.</p>
<p>Ensuring corruption and misuse of power are dealt with effectively</p>	<p>The Council takes corruption and misuse of power very seriously. The Council has an anti-fraud and corruption strategy and a whistleblowing policy in place.</p> <p>In addition, the Council has a Joint Standards Committee and Code of Conduct for Members which investigates complaints against members.</p> <p>The Council's Monitoring Officer and Deputy Monitoring Officers are responsible for ensuring that the Council acts in accordance with the law.</p>

	<p>All staff are required to confirm their acceptance of all policies, including the anti-fraud and corruption and whistleblowing policies through netConsent. Such policies are ultimately enforceable through disciplinary measures. Internal audit also carry out programmed audits on matters such as corporate crime.</p>
<p>2. Ensuring openness and comprehensive stakeholder engagement</p>	
<p>2.1 Openness</p>	
<p>Ensuring an open culture through demonstrating, documenting and communicating the organization's commitment to openness</p>	<p>The Council follows both the mandatory and (where cost effective) recommended provisions of the Local Government Transparency Code for publication of information held by the Council, and has a detailed scheme of publication under the Freedom of Information Act. In addition, in relation to certain decisions made at officer level, the Council has implemented the requirements of the Openness in Local Government Regulations 2014.</p>
<p>Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided</p>	<p>The Council has an adopted and published Corporate Strategy for 2020-2023 which sets out the Council's vision for a 3-year period.</p> <p>The Council has established arrangements to communicate and consult with Members of the public on the Council's work and key policy changes and this consultation allows the development of strategic priorities and the Corporate Strategy.</p> <p>The Council's Constitution sets out clearly the decision- making powers of:</p> <ul style="list-style-type: none"> • The Council • The Cabinet (including the Executive Leader and delegated decision-making to the Cabinet Portfolio Holders), • Other Council committees; and • powers delegated to officers and the limits of such delegation

	<p>The Overview and Scrutiny Committee is responsible for reviewing and scrutinizing decisions made by and performance of the cabinet, committees and officers. Decisions made by cabinet, committee or a cabinet member can be subjected to scrutiny via a call-in procedure allowing challenge within five working days of the decision being taken. Feedback from the Overview and Scrutiny Committee, Cabinet, Committees and Advisory Boards is taken into account and given due consideration in the decision-making process.</p> <p>Forthcoming key decisions are published in advance at regular intervals. All Member meetings held by the Council are open to the public, unless the items being discussed are considered to be private under the Local Government Act 1972; these may include staffing and legal matters and those of a contractual nature. Where such an exemption applies, it is recorded in the relevant report and minute.</p>
<p>Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.</p>	<p>Reports to members set out all relevant considerations in order to ensure that any decision taken is rational and lawful. In addition, reports of certain officer level decisions are required to be published under the Openness in Local Government Regulations 2014.</p>
<p>Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action.</p>	<p>The Council carries out consultation where this is a legal requirement.</p>
<p>2.2. Engaging comprehensively with institutional stakeholders</p>	
<p>Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are successfully achieved and sustainably.</p>	<p>The Council's Corporate Strategy 2020/23 outlines the means by which local stakeholders (including institutional stakeholders) will be engaged and how constructive, challenging relationships will be built.</p> <p>The Council has put in place Committees / Boards with cross-party representation to ensure effective and robust discussion of issues.</p> <p>The Council also has an Overview and Scrutiny Committee to scrutinise decisions made by Cabinet.</p>
<p>Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively</p>	<p>The Council has a number of partnerships, such as Shared Service and Joint Working arrangements which are intended to share resources with neighbouring authorities to improve efficiency and economic sustainability.</p>

<p>Ensuring that partnerships are built on trust, a shared commitment to change, a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit</p>	<p>The Council is in the process of developing a partnership policy to guide these principles and ensure that any partnership adheres to these values.</p>
<p>2.3 Engaging with individual citizens and services users effectively.</p>	
<p>Establishing a clear policy on the type of issues that the organization will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes</p>	<p>The Council is clear that it is ultimately accountable to the citizens of Tonbridge & Malling. The Council has a good understanding of who lives, works and plays in the borough and has mechanisms to listen to and respond to their needs, aspirations and concerns.</p> <p>All consultations are published on the Council's website. When considering consultation responses, the Council's decision considers the merit of the responses being made, regardless of the nature of the stakeholder group. The Council carries out consultation when legally required to do so.</p> <p>All reports and decisions include an equalities impact assessment which takes into account whether a decision would have a disproportionate impact on a certain section of society.</p>
<p>Ensuring communication methods are effective and that members and officers are clear about their roles with regard to community engagement</p>	<p>All consultations are published on the Council's website, and where legally required, are advertised in a relevant newspaper.</p> <p>The Council's constitution sets out the roles of members, and (in particular) cabinet members and their roles with regard to community engagement.</p>

	Public-facing staff receive training relevant to their roles to ensure that their community engagement roles are clear.
Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.	<p>The Council has taken action to develop and support effective engagement opportunities with all groups of the local community:-</p> <ul style="list-style-type: none"> • The Council engages with the Parishes and unparished areas through the Parish Partnership Panel and Tonbridge Forum • The Council promotes the TM Youth Forum that represents the views of young people living in Tonbridge and Malling • The Council supports the Tonbridge & Malling Seniors' Forum (TAMS) which promotes and the needs of the older resident. • The Council engages with other key stakeholders through a number of partnerships that the Council has embarked upon. • The Council actively uses complaints received to learn and improve services, whether through the internal complaints system or via the Ombudsman. • The Council operates a petition scheme whereby matters of significant local interest can be raised for discussion at full Council.
Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account.	<p>Consultation responses are reported upon to the relevant committee or board where Members have an opportunity to consider feedback received and how best to respond to such feedback.</p> <p>The Council also has in place a complaints procedure.</p>
Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity	When considering consultation responses, the Council's decision considers the merit of the responses being made, regardless of the nature of the stakeholder group.
Taking account of the impact of decisions on future generations of tax payers and service users.	All reports and decisions include an equalities impact assessment which takes into account whether a decision would have a disproportionate impact on a certain section of society.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.	
3.1 Defining Outcomes	
Having a clear vision, which is a clear formal statement of the organisation's purpose and	There is a clear statement of the organisation's purpose in the Tonbridge &

intended outcomes containing appropriate performance indicators, which provide the basis for the organisation's overall strategy planning and other decisions	Malling Borough Council Corporate Strategy 2020-23. This document sets out the key priorities for the authority and how the Council will work with a range of partners and the local communities towards achieving the objectives.
Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	<p>Committee reports all contain an assessment of risk of the options being presented for a decision. Additionally, the Audit Committee has a role in scrutinizing corporate risk.</p> <p>Where any decision is recommended, reports contain an analysis of the intended impact or changes for stakeholders and the timescale on which that is anticipated to happen. Decisions which may have a disproportionate impact on a certain section of society are subject to an Equalities Impact Assessment.</p>
Delivering defined outcomes on a sustainable basis within the resources that will be available	The Council's Medium Term Financial Strategy covers both revenue and capital budgets, and it is this strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Alongside the MTFS sits a Savings and Transformation Strategy. Its purpose, to provide structure, focus and direction in addressing the significant financial challenge that lies ahead.
Identifying and managing risks to the achievement of outcomes	<p>The Council has arrangements in place to effectively monitor and manage risks to its business through the risk management strategy and strategic and service risk registers.</p> <p>Committee reports all contain an assessment of risk of the options being presented for a decision. Additionally, the Audit Committee has a role in scrutinizing corporate risk.</p>
Managing service users' expectations effectively with regard to determining priorities and making the best use of the available resources	The Council is accountable to the citizens of Tonbridge and Malling in delivering its duties and responsibilities. The Council manages relationships with partners and consults the public through a number of mechanisms, including regular reporting to members, partnership arrangements (supported by partnership agreements) and the provisions of the Council's constitution.
3.2. Sustainable economic, social and environmental benefits.	
Considering and balancing the combined economic, social and environmental impact	Value for money considerations are set out in all committee reports, and the Council's external

<p>of policies and plans when taking decisions about service provision</p>	<p>auditors have consistently found that the Council does give value for money. The social impact of decisions is considered throughout the decision-making process, including the carrying out of an Equalities Impact Assessment where it is considered that a recommendation may have a disproportionate impact on a particular section of society.</p> <p>Where relevant, policies are subject to Strategic Environmental Impact Assessment prior to adoption.</p> <p>The Council intends to adopt a Climate Change Strategy in 2020 which will also set out the Council's aims for achieving carbon neutrality.</p>
<p>Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.</p>	<p>The Corporate Strategy, together with the Medium Term Financial Strategy and supported by the Savings and Transformation Strategy set out the long term high level objectives of the Council.</p>
<p>Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs</p>	<p>Council, Committee and advisory board reports set out all relevant considerations to enable members to make decisions which are appropriate and lawful.</p>
<p>Ensuring fair access to services</p>	<p>The Council has an equalities policy which seeks to ensure fair access to the Council's services by all sections of society.</p>
<p>4. Determining the interventions necessary to optimize the achievement of the intended outcomes</p>	
<p>4.1. Determining interventions.</p>	

<p>Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks, therefore ensuring best value is achieved however services are provided.</p>	<p>Decision making mechanisms are set out in detail in the Council's constitution. Whether a decision is at council, cabinet or committee level it is informed by a report encompassing advice from relevant services across the Council.</p> <p>Where relevant, alternative options are presented within committee reports, with an assessment of the benefits and disadvantages of those options.</p> <p>The Council's enforcement policies will inform a decision where legal or regulatory action is an option and reports will detail the legal implications of such action.</p>
<p>Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts</p>	<p>Where appropriate, the Council carries out consultation with stakeholders, which is taken into account in the decision-making process. Consultations are published on the Council's website, or where statutory rules apply to such consultation those rules are followed.</p> <p>In addition, the Council uses its complaints procedure to understand where services can be improved.</p>
<p>4.2 Planning Interventions</p>	
<p>Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets</p>	<p>Strategic and operational plans (such as the Corporate Plan) are reviewed on a regular basis.</p> <p>Feedback from consultations is taken into account in the decision making process and reported to the relevant committee, cabinet or Council meeting.</p> <p>The Savings & Transformation Strategy (STS) has been prepared in order to support the achievement of the Council's Medium-Term Financial Strategy and direct resources in line with the Council's Corporate Strategy. The STS recognizes that there is no one simple solution to addressing the financial challenges, and that the Council needs to embrace transformation in a multitude of ways in order to deliver savings within an agreed timetable. The STS sets out a measured structure and framework for delivering the necessary savings through a series of themes; each theme having a deliverable target.</p>

<p>Engaging with internal and external stakeholders in determining how services and other courses of action should be delivered</p>	<p>The Corporate Strategy, medium term financial strategy and other key policies are set by cabinet or the Council following input from all service directors and the Chief Executive.</p>
<p>Considering and monitoring risks facing each partner when working collaboratively, including shared risks</p>	<p>Reports on proposals for shared services contain a risk assessment, and risks are mitigated through the shared service agreements.</p>
<p>Ensuring arrangements are flexible and agile so that mechanisms for delivering goods and services can be adapted to changing circumstances</p>	<p>The Council's Contract Procedure Rules and standard contract terms are reviewed regularly to ensure they are up to date with current best practice.</p>
<p>Establishing appropriate Key Performance Indicators as part of the planning process in order to identify how the performance of services and projects is to be measured.</p>	<p>Performance indicators are monitored within each service and reported to Management Team where appropriate.</p>
<p>Ensuring capacity exists to generate the information required to review service quality regularly</p>	<p>It is the responsibility of service directors and Management Team to ensure sufficient capacity exists.</p>
<p>Preparing budgets in accordance with objectives, strategies and the medium-term financial plan</p>	<p>The Council's Medium Term Financial Strategy (MTFS) covers both revenue and capital budgets, and it is this Strategy that underpins the budget-setting process for the forthcoming year and over the strategy period.</p> <p>Budgetary control is undertaken on a monthly basis by services, who report known variations to Financial Services. These variations along with detailed monitoring of the Council's Salary Budget and Major Income Streams are reported to the Corporate Management Team and then onto Members via the Finance, Innovation and Property Advisory Board as part of the cycle of Councils meetings programme.</p>
<p>Informing medium and long-term resource planning by drawing up realistic estimates for revenue and capital expenditure aimed at developing a sustainable funding strategy</p>	<p>The Council's Medium Term Financial Strategy (MTFS) covers both revenue and capital budgets, and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period.</p> <p>The Strategy sets out the high level financial objectives the Council wishes to fulfil over the agreed time span. The Strategy also sets out, based on current financial information, not only the projected budgets for the period, but also the levels of council tax that are projected to be required to meet the Council's spending plans.</p> <p>The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities and takes us into the future. Underneath the Strategy sits detailed</p>

	estimates formulated in conjunction with Services taking into account past outturn, current spending plans and likely future demand levels / pressures. It is acknowledged that circumstances will change and for this reason the Strategy needs to, and will, be kept under regular review.
4.3 Optimising achievement of intended outcomes	
Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	The medium-term financial strategy is aligned with the Corporate Strategy. Service priorities are aligned to the Corporate Strategy.
Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	<p>The budget monitoring process considers both revenue and capital budgets.</p> <p>Budget for the following financial year and longer term financial planning through the MTFS takes account of the impacts for service delivery through potential changes in client base, housing need and levels.</p> <p>The MTFS takes into account changes in Government Funding where these are known. Where these factors are unknown these are judged by officers and shared and confirmed with Members.</p>
Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimizing resource usage	<p>In considering the preparation of the Budget for the current and future financial years, Chief Officers are asked to identify potential growth issues and savings for future years that can be assessed and included with the MTFS.</p> <p>This may include changes in demand for services, including the growth in property, and proposed changes in fees and charges.</p>
Ensuring the achievement of “social value” through service planning and commissioning	The Council has a Social Value Policy Statement. Whilst the issues of cost and quality remain of key concern, the concept of social value means that where appropriate, the Council can seek to achieve added social benefits in its procurement processes that may otherwise not have been achieved by other means.
5. Developing the entity’s capacity, including the capability of its leadership and the individuals within it	
5.1. Developing the entity’s capacity	
Improving resource use through appropriate application of techniques such as benchmarking and other options to	<p>The Council works towards improving value for money through:</p> <ul style="list-style-type: none"> • Exploration of innovative ways of

determine how resources are allocated so that defined outcomes are achieved effectively and efficiently	<p>working including potential for joint-working and shared services</p> <ul style="list-style-type: none"> • Robust budgeting and financial monitoring arrangements including detailed reviews of budgets and potential savings opportunities • Internal and external audit • Publication of annual budget and accounts information
Recognizing the benefits of partnerships and collaborative working where added value can be achieved	The Council works in partnerships with other authorities in Kent. A commitment to working in partnership is one of the Council's stated Corporate Objectives.
Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	<p>The Council has an extensive training programme for council officers including mandatory and voluntary training.</p> <p>The Council actively engages with its staff through:</p> <ul style="list-style-type: none"> • Team meetings • Regular performance management meetings • The Joint Employee Consultative Committee <p>The HR Strategy incorporates the Council's Workforce Development Plan which is reviewed and updated annually.</p>
5.2. Developing the capability of the entity's leadership and other individuals.	
Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	The Council examines the capability of its people with governance responsibilities through appraisals, identifying any training gaps – the relevant training programmes are updated accordingly.
Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	The Council's constitution sets out clearly the decision-making powers of the Council and its bodies and officers.
Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for the other's authority	the roles of the Leader of the Council and Chief Executive are clearly defined in the Council's Constitution.
Developing the capabilities of members and senior management to achieve effective leadership and to enable the organization to	The Council has undertaken steps through the "Peer Review Challenge" to review the effectiveness of the organization.

<p>respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks.</p>	<p>The Council has a training programme for Members and holds regular training sessions (both on a programmed and ad hoc basis) for Members on a variety of topics:</p> <ul style="list-style-type: none"> • Induction training for all new members • Service-specific training, e.g. Community Safety • Committee-specific training, e.g. Audit Committee, Planning Committee
<p>Ensuring that there are structures in place to encourage public participation</p>	<p>Consultations are published on the Council's websites. In relation to decisions taken by the Council on planning matters, and certain matters under the Licensing Act 2003, members of the public are able to make both written and oral representations to the committee. The Council also operates a petition scheme.</p>
<p>Holding staff to account through regular performance reviews which take account of training or development needs</p>	<p>Staff have access to appropriate induction training, and ongoing training on both an ad hoc and programmed basis relevant to their roles.</p> <p>The annual appraisal process reviews staff performance and also identifies training needs.</p> <p>Staff training takes place both through internal and external provision as appropriate.</p>
<p>Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing</p>	<p>The council has a Health and Wellbeing statement of intent recognizing that the Council's staff are its most valuable asset. The HR Strategy also recognizes the same. The Council has a Joint Employee Consultative Committee which enables employees to raise matters of concern, including health and wellbeing.</p>
<p>6. Managing risks and performance through robust internal control and strong public financial management</p>	
<p>6.1. Managing risk</p>	
<p>Recognizing that risk management is an integral part of all activities and must be considered in all aspects of decision making</p>	<p>Risk management practices are embedded within the organisation through the annual service and strategic planning processes, which is used to develop the Council's vision and objectives. This ensures that risks to the achievement of the Council's objectives are identified and managed appropriately. Risks identified are scored on the basis of their likelihood and impact and existing controls and required actions to further mitigate risks are captured in risk registers. The framework sets out the responsibility of Officers</p>

	<p>leading on areas with partnership arrangements to ensure that the partner has an adequate risk management strategy and sufficient insurance cover to protect the interests of the Council.</p>
<p>Implementing robust and integrated risk management arrangements and ensuring that they are working effectively</p>	<p>The Council has arrangements in place to effectively monitor and manage risks to its business through the:</p> <ul style="list-style-type: none"> • Risk Management Strategy • Strategic Risk Register • Service Risk Registers • Audit Committee role in scrutinising corporate risk • Consideration of risk in all Committee reports • Annual Governance Statement <p>The strategic and service risk registers are updated regularly.</p> <p>Risks associated with decisions are set out on relevant committee, cabinet or council reports.</p> <p>The Council's standard report template requires Officers and Members to carry out a risk assessment of the action recommended in the report ensuring risk is considered in all decision-making of the authority. This assessment also covers legal, financial and value for money considerations and equality issues where relevant.</p>
<p>Ensuring that responsibilities for managing individual risks are clearly allocated.</p>	<p>The service risk registers clearly identify responsibilities for managing individual risks.</p>
<p>6.2. Managing performance.</p>	
<p>Making decisions based on relevant, clear and objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook</p>	<p>The performance of the Council and its partners in achieving its objectives is monitored and measured by services and their respective Service Management Teams and subsequently Management Team and Members. Individual services are accountable to the Corporate Management Team for operational performance monitoring and measurement and are responsible for taking action to correct any adverse performance, in the first instance, as appropriate.</p>
<p>Ensuring an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organization for which it is responsible</p>	<p>The overview and scrutiny committee is responsible for reviewing and scrutinizing the decisions made by and performance of the Cabinet and/ or Committees/ Advisory Boards and Council Officers. Decisions made by Cabinet, a Committee or by a Cabinet Member</p>

<p>(or for a committee system) encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making</p>	<p>acting on the recommendation of an Advisory Board can be subjected to scrutiny via a call-in procedure allowing challenge within 5 working days of the decision being taken.</p>
<p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>The Council has in place committees & boards with cross-party representation to ensure effective and robust discussion of issues. Relevant boards, committees and the executive are provided with information reports on a regular basis to provide progress reports on service delivery and outcomes.</p>
<p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p>	<p>The medium-term financial strategy is aligned with the Corporate Strategy. Service priorities are aligned to the Corporate Strategy, which ensures consistency between budget-setting and service delivery.</p> <p>Capital schemes are subject to evaluation prior to the approval for implementation; the criteria of the evaluations are set by Council.</p> <p>Following the scheme's completion a post implementation review will be prepared and shared with members in order to determine the accuracy of the initial evaluation and identify lessons to be learned and considered in future evaluations.</p>
<p>6.3 Robust internal control</p>	
<p>Ensuring effective counter-fraud and anti-corruption measures are in place</p>	<p>The Council has an effective Internal Audit service and Anti-Fraud service in place. The Council also has an Anti-Fraud and Corruption Policy and Whistleblowing Policy.</p>
<p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p>	<p>The Council has in place arrangements to effectively monitor and manage risks to its business through the:</p> <ul style="list-style-type: none"> • Risk management strategy • Strategic risk register • Service risk registers
<p>Establishing an audit committee or equivalent group/function which is</p>	<p>The core functions of an audit committee as defined by <i>CIPFA's Audit Committees: Practical</i></p>

<p>independent of the executive and accountable to the governing body</p>	<p><i>Guidance for Local Authorities</i> are fulfilled by the Council's Audit Committee. The Council's Constitution sets out the responsibility of the Audit Committee to provide independent assurance of the adequacy of the risk management framework and associated control environment. To do so, the Audit Committee has adopted a Risk Management Strategy that sets out the roles of Officers and Members in the identification and minimisation of risk. The Risk Register is a standing item at every Audit Committee meeting</p>
<p>6.4 Managing Data</p>	
<p>Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data</p>	<p>The Council maintains a number of local policies which support and embed information processes. These include</p> <ul style="list-style-type: none"> • Data Protection policy • Information Security policy • Data Retention policy • Use of removable media policy • Remote access policy • Social media policy • Information Asset register • Information Governance Policy <p>The Council has a Data Protection Officer, appointed in accordance with GDPR, with overall responsibility for ensuring the Council follows proper data protection practices. The DPO chairs the Council's Information Governance Group ("IGG") which meets regularly to discuss data protection and related matters within the Council, including data breaches.</p> <p>Individual services have representatives appointed to sit on the IGG and feed back into their services to raise and maintain awareness of the requirements of GDPR.</p>
<p>Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies</p>	<p>The Council is a signatory to the Kent & Medway Information Sharing Agreement, which prescribes the procedures that are to be followed when sharing data with other public sector bodies in Kent. The Data Protection Officer, or his appointed Deputies, attend the Kent & Medway Information Sharing Partnership, which seeks to share best practice under GDPR across all Kent authorities.</p>
<p>Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring</p>	<p>An annual risk-based Internal Audit Plan is prepared to determine the priorities of the internal audit activity, consistent with the organisation's goals. The Plan aims to ensure that sufficient audit assurance work is carried out to enable the Chief Audit Executive to deliver an opinion</p>

	regarding the adequacy and effectiveness of the internal control arrangements within the Council. Each audit review will cover data quality and accuracy relevant to the subject area.
6.5 Strong public financial management	
Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance	<p>The Council's Financial Procedure Rules support the provision of high quality financial advice. The Council also acts in consultation with stakeholders. The Council's Internal Audit Service provides assurance on the quality of financial and performance data reported.</p> <p>The ongoing budget-setting and monitoring process together with the Medium Term Financial Strategy supports the long-term achievement of outcomes and short-term financial and operational performance.</p>
Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	Annual budgets are set with involvement from budget holders across all council services. The MTFS is set considering longer-term risks.
7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability	
7.1 Implementing good practice in transparency	
Writing and communicating reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.	<p>The Council has implemented the mandatory and (where cost effective) recommended principles set out in the Local Government Transparency Code. The Council has set up a steering group which meets to discuss changes to the code and its ongoing implementation.</p> <p>Reports for both historic and prospective meetings of the Council and its committees and boards are made available to the public through the Council's website.</p> <p>Where possible, reports are written in a public-facing and non-technical manner. All reports (save those which are exempt from publication for reasons set out in the Local Government Act 1972) are made public and can be accessed through the Council's website.</p>
Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	Where possible, reports are written in a public-facing and non-technical manner. All reports (save those which are exempt as discussed above) are made public and can be accessed through the Council's website.
7.2 Implementing good practice in reporting	

<p>Reporting at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way</p>	<p>Annual Statement of Accounts report the Council's financial performance against the original estimate set for that financial year. The statement is prepared in accordance with the CIPFA Code for Local Authority Accounting.</p> <p>Included within the financial statements will be a judgement from the Council's external auditors on value for money and adequate use of resources.</p> <p>Included within the financial statements is the Annual Governance Statement. This is approved by Members and signed by the Chief Executive and Leader of the Council and provides evidence on the Council's adherence to the Code of Corporate Governance.</p>
<p>Ensuring members and senior management own the results reported</p>	<p>The Annual Governance Statement is approved by the leader and Chief Executive, and the financial statements are considered and approved by Management Team and the Audit Committee.</p>
<p>Ensuring robust arrangements for assessing the extent to which the principles contained in the framework have been applied and publishing the results on this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)</p>	<p>Compliance is reviewed on an annual basis and reported to Audit Committee.</p>
<p>Ensuring that the framework is applied to jointly managed or shared service organisations as appropriate</p>	<p>Where appropriate, the principles will be applied to jointly managed or shared services.</p>
<p>Ensuring that performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparisons with other, similar, organisations.</p>	<p>Performance information is included as part of the budget-setting process.</p>
<p>7.3 Assurance and effective accountability</p>	
<p>Ensuring that recommendations for corrective action made by external audit are acted upon</p>	<p>Responsibility for acting upon recommendations from external audit rests with the relevant service, and is monitored through individual service management teams and the corporate management team.</p>
<p>Ensuring an effective internal audit service with direct access to members is in place, providing assurance with regard to</p>	<p>The Council has an effective internal audit service, and an Audit Committee.</p>

governance arrangements and that recommendations are acted upon	
Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	The Council takes an active part in Peer Reviews.
Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	Risks are picked up through the contract monitoring process and reported through Audit Committee or a relevant advisory board
Ensuring that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognized and met	Such arrangements are subject to public reports to each authority in the partnership. The Contracts Procedure Rules also ensure that standard contract terms are imposed ensuring proper accountability.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Recommendation to Council

1 TREASURY MANAGEMENT UPDATE AND ANNUAL REPORT FOR 2020/21

The report provides an update on treasury management activity undertaken during April to June of the current financial year. The treasury management outturn position for 2020/21 is also included in this report.

1.1 Introduction

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

1.2 Economic Background

- 1.2.1 In June UK GDP having plunged in 2020 had recovered to around 2½% below its 2019 pre-Covid level. Forward looking monthly business surveys are running at exceptionally high levels pointing to a strong economic recovery.
- 1.2.2 The annual inflation rate (CPI) rose to 2.1% y/y in May from 1.5% y/y in April. The first time CPI has been above the Bank of England's 2% target since July 2019.
- 1.2.3 After a third wave of the virus threatened to overwhelm hospitals at the start of the year the pace of the UK vaccination programme has boosted confidence that life in the UK could largely return to normal during the second half of 2021. Household saving has been exceptionally high since the first lockdown in March 2020 leaving pent-up demand and purchasing power for services in hard hit sectors like restaurants, travel and hotels. Questions remain over how effective current vaccines will be to mutations of the virus that might emerge and how quickly vaccines can be modified to deal with them.
- 1.2.4 At the Monetary Policy Committee meeting in June members voted unanimously to keep Bank Rate unchanged at 0.10% and voted by a majority of 8-1 to continue the existing programme of UK government bond purchases at £875bn. In the

press release, it was noted that “since May, developments in global GDP growth have been somewhat stronger than anticipated, particularly in advanced economies. Global price pressures have picked up further, reflecting strong demand for goods, rising commodity prices, supply-side constraints and transportation bottlenecks, and these have started to become apparent in consumer price inflation in some advanced economies. Financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory”.

- 1.2.5 The MPC noted the developing upside risks in the UK to both activity and inflation. It said that the news on activity “had predominately been to the upside” and that Bank staff had “revised up their expectations for 2021 Q2 GDP growth to 5½% from 4¼%”. For the first time, the policy statement noted that “there are increasing signs of recruitment difficulties for some businesses” and the minutes said, “it was possible that the near-term upward pressure on prices could prove somewhat larger than expected” and that inflation “is likely to exceed 3% for a temporary period”.
- 1.2.6 Despite the inflationary pressures, previous forward guidance was repeated that the Bank will “ensure that the recovery was not undermined by a premature tightening in monetary conditions” and it will not raise Bank Rate until the 2% inflation target has been attained sustainably.

1.3 Interest Rate Forecast

- 1.3.1 Following the financial crisis in 2008, Bank Rate was cut to an emergency level of 0.5% where it remained for over seven years. The outcome of the 2016 EU referendum prompted Bank Rate to be cut to 0.25% in August 2016. Bank Rate has since risen in 0.25% steps, peaking at 0.75% from August 2018. The pandemic resulted in Bank Rate being cut to 0.1% in March 2020. Link’s forecast, updated in May 2021, assumes Bank Rate will continue at this level for the next two years.

Link - May 2020	June-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
	%	%	%	%	%	%	%	%	%	%	%	%
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
25yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60

1.4 Investment Performance

- 1.4.1 In accordance with the CIPFA Code the Council’s priorities, in order of importance, are to ensure security of capital; liquidity; and having satisfied both, to

obtain an appropriate level of return which is consistent with the Council's risk appetite.

- 1.4.2 The Council's investments are derived from cash flow surpluses, core cash balances and other long term cash balances.
- 1.4.3 Cash flow surpluses are available on a temporary basis and the amount mainly dependent on the timing of council tax and business rates collected and their payment to precept authorities and government. Less significant cash flows relate to receipt of grants, payments to housing benefit recipients, suppliers and staff. Cash flow surpluses build up during a financial year and are spent by financial year end. Thus far in 2021/22 cash flow surpluses have averaged £23m per day.
- 1.4.4 The Authority also has £20m of core cash balances. These funds are for the most part available to invest for more than one year, albeit a proportion is usually transferred to cash flow towards the end of the financial year to top-up daily cash balances. Core cash includes the Council's capital and revenue reserves which are being consumed over time to meet capital expenditure and 'buy time' to enable the authority to deliver its revenue savings targets.
- 1.4.5 Cash flow and core cash balances also include some £8m to meet business rate appeals of which £3m are expected to be resolved in 2021/22 and the remainder in future years.
- 1.4.6 Long term investment at the end of June 2021 comprised £5m in property fund investments.
- 1.4.7 A full list of investments held on 30 June 2021 is provided at **[Annex 1]** and a copy of our lending list of 28 June is provided at **[Annex 2]**. The table below provides a summary of funds invested and interest / dividends earned at the end of June.

	Funds invested on 30 June 2021	Weighted average duration to maturity	Weighted average rate of return	Interest / dividends earned 1 April to 30 June 2021	Annualised weighted rate of return	LIBID benchmark (average from 1 April 2021)
	£m	Days	%	£		%
Cash flow	21.4	5	0.04	2,100	0.04	-0.08 (7 Day)
Core cash	20.0	156	0.29	14,950	0.33	-0.04(3 Mth)
Sub-total	41.4	78	0.16	17,050	0.17	-0.06 (Ave)
Long term	5.0		3.48	40,350	3.23	
Total	46.4		0.52	57,400	0.50	

- 1.4.8 **Cash flow and Core cash Investments.** Whilst the authority outperformed the LIBID benchmark by 23 basis points, Interest earned of £17,050 to the end of June is £2,900 below the original estimate for the same period. The fall in income reflects the ultra-low returns on short duration deposits (up to 12 months) available in the market at the present time. Rates declined throughout 2021 in response both the March 2020 Bank Rate cut and the realisation that recovery from the economic impacts of Covid-19 are going to be with us for some time to come.
- 1.4.9 Bank offers are expected to remain at their current ultra-low levels throughout 2021/22. As a consequence, cash flow and core cash investment is likely to underperform against budget for the year as a whole by some £15,000. Steps are outlined later in the report (Section 1.5) to address this and to mitigate some of the impact a “low Bank Rate for longer” is expected to have on the level of investment income reflected in the Council’s Medium Term Financial Strategy (MTFS).
- 1.4.10 The Council takes advantage of Link’s benchmarking service which enables performance to be gauged against Link’s other local authority clients. An extract from the latest benchmarking data is provided in the form of a scatter graph at **[Annex 3]**. The graph shows the return (vertical scale) vs. the credit / duration risk (horizontal scale) associated with an authority’s investments. At 31 March 2021 the Council’s return at 0.22% (purple diamond) was just above the local authority average of 0.21%. Based on the Council’s exposure to credit / duration risk that return was in-line with Link’s predicted return (between the upper and lower boundary indicated by the diagonal lines). The Council’s risk exposure was also consistent with the local authority average.
- 1.4.11 **Long-term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long-term investment (equities, bonds and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council’s more immediate funding need: a sustainable, stable income stream.
- 1.4.12 £3m was invested in property investment funds during 2017/18 and a further £2m invested during 2018/19. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments are expected in the future as resources become available from asset disposals and other windfalls.
- 1.4.13 During the period 1 April 2021 to 30 June 2021 the £5m investment in property funds generated income from dividends of £40,350 which represents an annualised return of 3.23%. Income is just below budget to the end of June by £2,150.

1.4.14 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided.

1.4.15 Current sale values vs initial purchase price are as follows:

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price a £	Sale value at date of purchase b £	Sale value 30 June 2021 c £	30 June 21 sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	963,750	(36,250)
Lothbury (Primary, July 2017)	1,000,000	927,700	950,350	(49,650)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	995,800	(4,200)
LAPF (Primary, June 2018)	1,000,000	922,200	924,050	(75,950)
Lothbury (Secondary, July 2018)	1,000,000	973,000	932,050	(67,950)
Total change in principal	5,000,000	4,684,100	4,766,000	(234,000)
			Total dividends received	622,950
			Net gain since inception	388,950

1.4.16 Since inception, the Council has received dividends from its property fund investments totalling £622,950. Taking the current £234,000 deficit on sale values into account the net gain to the Council is £388,950. The deficit in sales value is expected to be recouped overtime as the economy improves.

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

1.5 Medium-term investment

1.5.1 In recent years multi asset (diversified income) funds have grown in popularity. The rationale for adopting such a fund was explored in the Audit Committee report of January 2018 and their use for medium-term investment reaffirmed in the

January 2021 Audit Committee report which introduced this financial year's Annual Investment Strategy.

- 1.5.2 Like property funds, multi asset funds aim to generate returns over and above inflation and thus preserve spending power. The March 2020 cut in bank rate and its impact on the level of investment income in the early years of our MTFs provided added impetus to progress such an investment and provide some mitigation against a "low Bank Rate for longer".
- 1.5.3 By their nature investment in a multi asset fund will involve exposure to shares and bonds issued by companies. It isn't practical to exclude specific types of company activity (e.g. tobacco, oil and gas exploration etc). To do so might preclude investment in such a fund. An informal Member meeting was held in March comprising the Leader of the Council, Cabinet Member for Finance Innovation and Property, Cabinet Member for Street Scene and Environmental Services, Chairs of Audit Committee and the Finance Innovation & Property Advisory Board. The meeting concluded with a set of criteria that would focus on a fund's ESG (environmental, social and governance) and investment management credentials. The agreed criteria were:
- Does the fund have an ESG policy?
 - How is ESG policy applied in the decision to purchase, hold and sell investments?
 - Has the fund manager adopted the UK Stewardship Code?
 - Does the fund manager apply the UN Principles of Responsible Investment?
 - Does the fund manager participate in the Institutional Investors Group on Climate Change (IIGCC)?

The first four criteria were considered necessary to attract the Council's investment. The final criteria, though not a must, was considered highly desirable.

- 1.5.4 Link were engaged to support the selection process. From a longlist of seventeen potential funds Link considered appropriate for Local Authority treasury investment, twelve were selected for detailed evaluation. In response to a questionnaire the qualitative and quantitative analysis undertaken by Link culminated in five funds being selected for presentation / interview. The presentations were held on 29 June 2021.
- 1.5.5 All the funds invited to present met the criteria outlined in paragraph 1.5.3 including membership of the IIGCC. Three funds have now been selected for investment with an expectation based on past performance that, each will deliver a return in excess of 3% per annum and preserve capital over the five-year duration of the investment. The three funds selected are:

- Fidelity Multi Asset Income Fund.
- Ninety One Diversified Income Fund.
- Aegon Diversified Monthly Income Fund.

1.5.6 Link's fee for the engagement is £8,500 and is to be funded from the additional income that the investment will generate in the current financial year. Application forms are currently being processed. £1m is being invested in each of the three named funds which collectively are expected to generate £60,000 of additional income in 2021/22 (£90,000 in a full year).

1.6 Compliance with the Annual Investment Strategy

1.6.1 Throughout April to June 2021, all the requirements contained in the 2021/22 Annual Investment Strategy intended to limit the Council's exposure to investment risks (minimum sovereign and counterparty credit rating; durational limits; exposure limits in respect of counterparties, groups of related counterparty and sovereigns; and specified and non-specified investment limits) have been complied with. No borrowing was undertaken during April, May or June 2021.

1.6.2 The Council has also operated within the treasury limits and prudential indicators set out in the Annual Investment Strategy. The 2021/22 Prudential and Treasury Indicators will be included for review as part of the treasury management report to the September 2021 meeting of Audit Committee.

1.7 2020/21 Treasury Management Outturn

1.7.1 A detailed report covering treasury management activity for the last financial year was submitted to Cabinet on 2 June 2021 as an annex to the Revenue and Capital Outturn report for 2020/21. That annex is replicated in full and provided at **[Annex 4]** to this report. The role of this Committee is to act as scrutineer on behalf of full Council.

1.7.2 A summary of the investment performance included in Annex 4 is as follows:

	2020/21 Average balance £m	Return %	2020/21 Interest/ dividends earned £	2020/21 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	29.3	0.13	36,821	42,000	(5,179)
Core cash	17.4	0.53	91,955	90,000	1,955
Long term investment	5.0	3.42	172,177	156,000	16,177
Total	51.7	0.58	300,953	288,000	12,953

1.7.3 The combined performance of the Authority's investments exceeded the revised estimate by £12,953 but were £224,047 less than the 2020/21 original estimates reflecting the Covid-19 impact on investment returns.

1.7.4 Income and expenditure attributed to the Treasury Management function for 2020/21 is provided at **[Annex 5]**. This shows the aggregate staff resource applied to treasury management is less than one full time equivalent and that income exceeds costs by a significant margin. Income in future years forms part of the Council's Medium Term Financial Strategy and is subject to changes in the level of reserves and changes in Bank Rate. Expenditure in future years is expected to rise in-line with inflation.

1.8 Legal Implications

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

1.9 Financial and Value for Money Considerations

1.9.1 The Bank Rate having remained at a historic low of 0.5% for over seven years was cut to 0.25% in August 2016. In November 2017, the Bank of England (BoE) returned the Bank Rate to 0.5%. Bank rate was increased to 0.75% in August 2018. In response to the anticipated impact of Covid-19 on the economy, BoE cut Bank Rate to 0.1% in March 2020. Link's current forecast (updated May 2021) anticipates Bank Rate remaining at 0.1% for the next two years.

1.9.2 Investment income at the end of June 2021 (month three of the financial year) from cash flow surpluses and core cash investments is £2,900 below budget for the same period. Income from property funds at the end of June is below budget by £2,150. Investment income for the financial year as a whole from these sources is expected to underperform against budget by some £15,000.

1.9.3 Arrangements are in hand to invest £3m in multi asset funds. The investment is expected to generate a return in excess of 3% per annum. The return is significantly higher than that currently being derived from core fund deposits. After deducting Link's engagement fee (£8,500) the additional net income in 2021/22 will be some £51,500.

1.9.4 Investment income for the 2020/21 financial year as a whole exceeded the revised estimate by £12,953 (£224,047 less when compared to the original 2020/21 estimate).

- 1.9.5 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.
- 1.9.6 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.
- 1.9.7 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.
- 1.9.8 The money being applied to property fund investment from existing resources is expected to be available in perpetuity. Nevertheless, the Council's cash balances will continue to be monitored and due regard had to the potential for a fund to delay payment of redemption requests by up to twelve months. Funds will seek to minimise their own cash balances in favour of holding property and therefore manage redemption requests for the benefit of all fund participants. The Council is only likely to seek redemption to pursue a higher yielding income opportunity should one be identified.
- 1.9.9 Multi asset (diversified income) funds aim to limit risk by spreading investment across a broad range of asset classes (equities, bonds, property, cash). Nevertheless, the principal sum invested may fall as a consequence of adverse economic or market events. Multi asset funds are being used for medium-term investment implying a five-year timeframe.
- 1.9.10 The investment in multi asset funds assumes balances available for investment in the final year of our 10-year MTFs will be circa £15m. The MTFs includes a series of savings targets which have yet to be delivered.

1.10 Risk Assessment

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

1.11 Equality Impact Assessment

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

1.12 Recommendations

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

- 1) Endorse the action taken by officers in respect of treasury management activity for April to June 2021.
- 2) Note that £3m is being applied to investment in multi asset (diversified income) funds.
- 3) Note the 2020/21 outturn position.

Background papers:

contact: Mike Withey

Link interest rate forecast (May 2021)

Link benchmarking data (March 2021)

Sharon Shelton

Director of Finance and Transformation

Tonbridge and Malling Borough Council - Investment summary 30 June 2021

Counterparty / type of investment	Sovereign	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 : 95 day notice account Fixed term deposit	UK	6 months	23/07/2019 09/04/2021	TBD 13/07/2021	95 Days 3 months	4,000,000 3,000,000 1,000,000	0.15 0.10	8.63%		3,000,000 1,000,000	
Close Brothers : Fixed term deposit	UK	6 months	21/10/2020	21/07/2021	9 Months	2,000,000 2,000,000	0.50	4.31%		2,000,000	
Goldman Sachs : Fixed term deposit Fixed term deposit Fixed term deposit	UK	6 months	28/01/2021 17/03/2021 21/04/2021	28/10/2021 17/03/2022 21/04/2022	9 Months 1 year 1 year	6,000,000 2,000,000 2,000,000 2,000,000	0.17 0.40 0.39	12.94%		2,000,000 2,000,000 2,000,000	
HSBC Bank : 31 day notice account	UK	1 year	02/12/2019	TBD	31 Days	3,000,000 3,000,000	0.10	6.47%	3,000,000		
National Westminster Bank : Certificate of deposit Deposit account	UK	1 year	06/07/2020 30/06/2021	05/07/2021 01/07/2021	1 year Overnight	2,050,000 2,000,000 50,000	0.42 0.01	4.42%		2,000,000	
Santander UK Bank : Fixed term deposit Fixed term deposit Fixed term deposit	UK	6 months	22/04/2021 27/05/2021 17/06/2021	21/01/2022 25/02/2022 17/03/2022	9 Months 9 Months 9 Months	6,000,000 2,000,000 2,000,000 2,000,000	0.25 0.25 0.25	12.94%		2,000,000 2,000,000 2,000,000	
Money Market Funds											
Blackrock MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	50,000 50,000	0.01	0.11%	50,000		
BNP Paribas MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	3,501,000 3,501,000	0.03	7.55%	3,501,000		
CCLA PSDF MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	6,661,000 6,661,000	0.03	14.37%	6,661,000		
DWS Deutsche MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	50,000 50,000	0.02	0.11%	50,000		
Federated MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	50,000 50,000	0.01	0.11%	50,000		
Morgan Stanley MMF - shares/units held	N/A	5 years	30/06/2021	01/07/2021	Overnight	8,000,000 8,000,000	0.03	17.26%	8,000,000		
Property Funds											
Hermes Property Unit Trust : Property fund units	N/A	N/A	29/09/2017	N/A	N/A	1,000,000 1,000,000	3.49	2.16%		1,000,000	
Local Authorities' Property Fund : Property fund units Property fund units	N/A	N/A	29/06/2017 30/05/2018	N/A N/A	N/A N/A	2,000,000 1,000,000 1,000,000	4.19 3.95	4.31%		1,000,000 1,000,000	
Lothbury Property Trust : Property fund units Property fund units	N/A	N/A	06/07/2017 02/07/2018	N/A N/A	N/A N/A	2,000,000 1,000,000 1,000,000	2.95 2.83	4.31%		1,000,000 1,000,000	
Total invested						46,362,000		100.00%	21,362,000	20,000,000	5,000,000

Number of investments	23	Average investment value £		2,016,000	
Number of counter parties	15	Average counter party investment £		3,091,000	
Group exposures:		Core £	Cash £	Combined £	%
Royal Bank of Scotland + National Westminster (UK Nationalised MAX 20%)		2,000,000	50,000	2,050,000	4.42
Bank of Scotland + Lloyds (MAX 20%)		-	-	-	-
Property Funds Total		£		5,000,000	%
					10.78

Total non-specified investments should be less than 60% of Investment balances 10.78%

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

End date for notice accounts to be determined (TBD)

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Tonbridge and Malling Borough Council Lending List

Checked against Link's "Suggested Credit List" dated 25/06/21 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
[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.								
[2] All deposits overnight unless otherwise approved in advance by the Director of Finance and Transformation AND Chief Financial Services Officer. If other than overnight duration for non-UK entities must not exceed Link's post CDS duration suggestion. For UK entities duration may be extended by up to three months based on credit ratings alone or six months if CDS is below average, subject to a maximum combined duration of 12 months.								

Money Market Funds (Minimum investment criteria AAA) :					
Fund Name	Moody	Fitch	S&P	Exposure Limit	Link credit worthiness
Blackrock Institutional Cash Series - Sterling Liquidity	AAA	-	AAA	£8m	5 years
BNP Paribas InstiCash - GBP	-	-	AAA	£8m	5 years
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

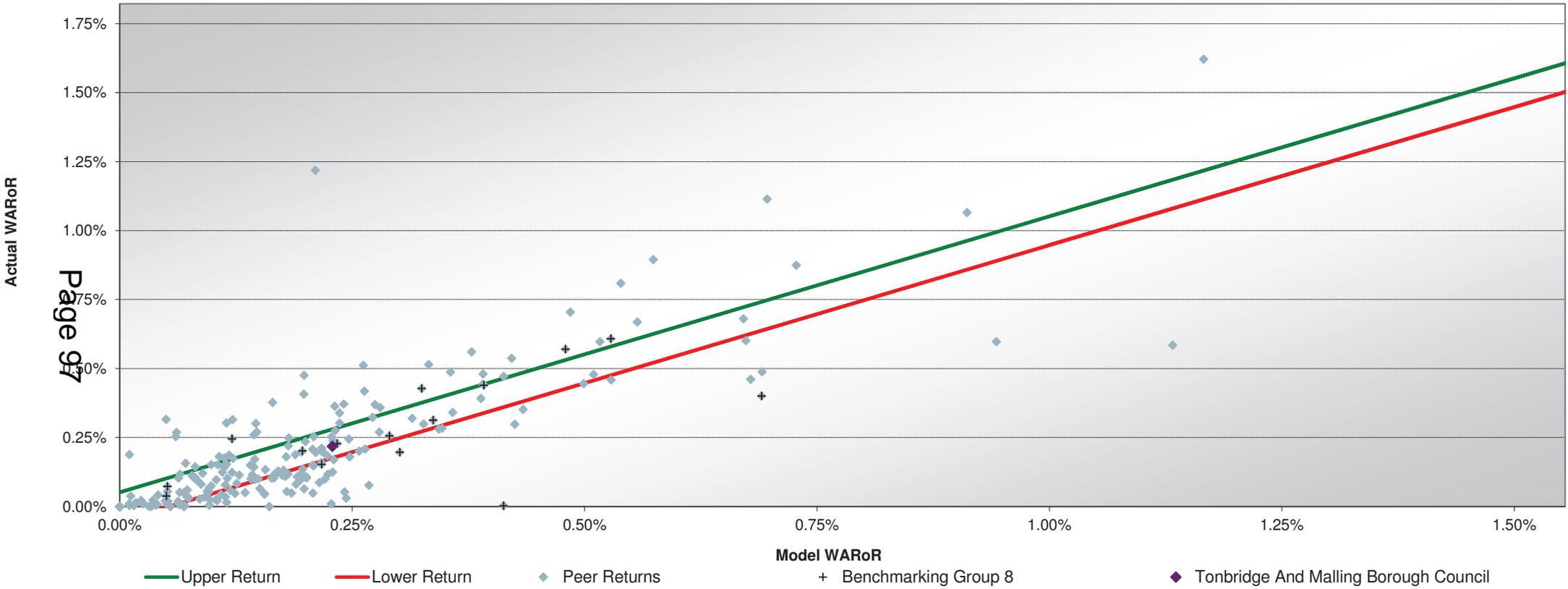
Approved by Director of Finance and Transformation
28 June 2021

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Tonbridge And Malling Borough Council

Population Returns against Model Returns March 2021



	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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Tonbridge and Malling Borough Council

Treasury Management Annual Report 2020/21

1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.1.2 During 2020/21 the minimum reporting requirements were that full Council should receive the following treasury reports:

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

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2020/21 financial year. Treasury performance was also considered at the Finance, Innovation and Property Advisory Board through the regular Financial Planning and Control reports.

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

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

1.2 Treasury Position 31 March 2021

1.2.1 At the beginning and the end of 2020/21 the Council's debt and investment position was as follows:

	31 March 2020 £m	Rate / Return %	Average duration Days	31 March 2021 £m	Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
Total debt	0.0	-	-	0.0	-	-
Fixed rate investments:						
Cash flow surpluses	2.0	0.20	13	0.0	-	-
Core cash	13.0	1.09	75	8.0	0.38	134
Variable rate investments:						
Cash flow surpluses	13.6	0.36	9	15.8	0.04	7
Core cash	6.0	0.56	76	8.0	0.41	90
Sub-total	34.6	0.66	46	31.8	0.22	70
Long term investments:						
Property Funds	5.0	3.54	-	5.0	3.51	-
Total investments	39.6	1.02	-	36.8	0.67	-

1.2.2 The reduction in investment balances reflects surpluses / deficits on the council tax and business rates collection funds due to be paid / recovered in 2021/22; application of provisions to meet business rate appeals which were determined by the Valuation Office during the financial year; and changes in the level of year-end debtor and creditor provisions.

1.3 The Strategy for 2020/21

1.3.1 The treasury management strategy for 2020/21, based on November 2019 forecasts, assumed a trade agreement between the UK and EU would be reached. The beneficial impact on economic growth and upward inflationary pressure that would follow would see Bank Rate rising from 0.75% to 1.0% in March 2020. Bank rate was then expected to remain at 1.0% throughout 2020/21.

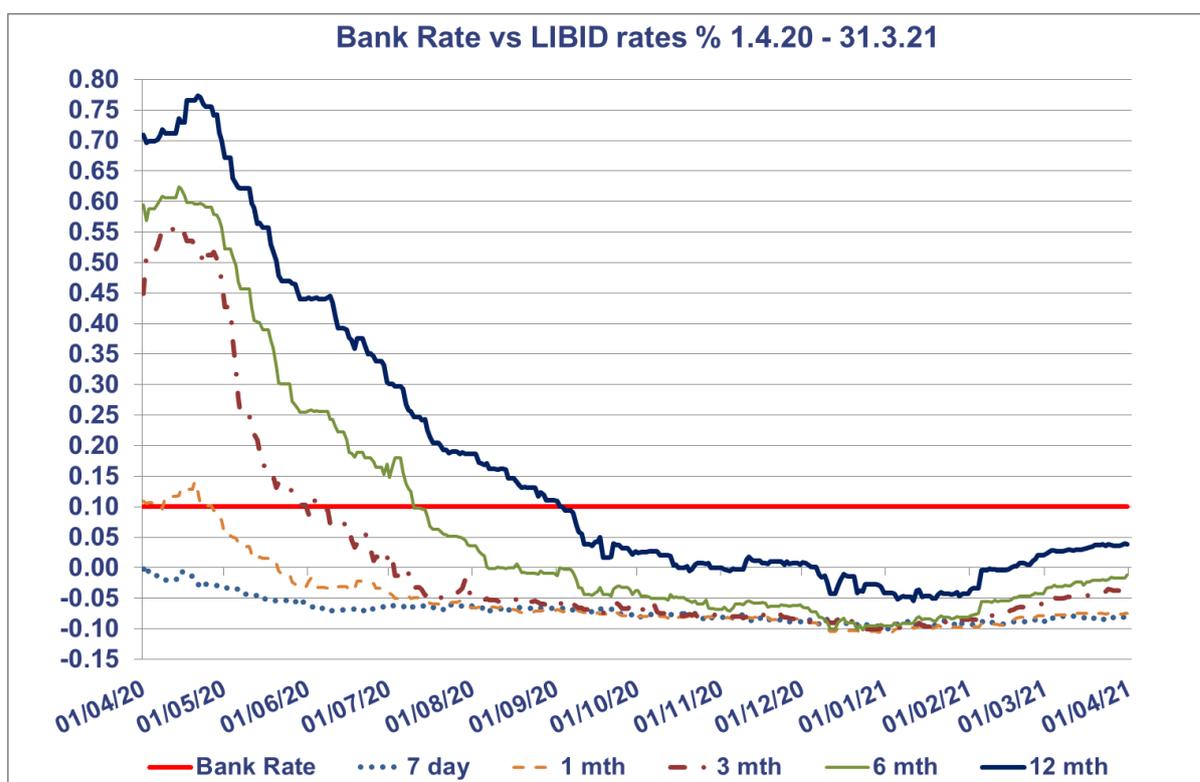
1.3.2 At the time the strategy was presented to Members in January 2020, Covid-19 didn't feature in news bulletins but by March 2020 the UK was in lockdown. The much hoped for short sharp shock to the economy followed by a rapid recovery, anticipated when lockdown commenced, didn't materialise. Governments and central banks responded to the pandemic with substantial support packages. Bank Rate is now expected to remain at its present level of 0.1% for some time to come. Link, the Council's treasury advisor, anticipate Bank Rate rising to 0.25% in September 2023 (forecast updated May 2021).

1.3.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for

financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme market stress and economic conditions.

1.4 Investment Rates in 2020/21

- 1.4.1 Bank rate and investment returns across durations up to 12 months are depicted in the graph below. Bank Rate was cut from 0.75% to 0.10% in March 2020 to support the economy in response to Covid-19. Deposits rates from banks fell rapidly during the early part of 2020/21 with many short duration deposits (up to 6 months) attracting trivial, and in some cases, negative returns. Deposit rates available towards the end of the financial year showed little improvement.



1.5 Investment Outturn for 2020/21

- 1.5.1 The Council's investment policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2020/21 Annual Investment Strategy was approved by Council in February 2020 and was subjected to a mid-year review in September 2020. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (typically Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to constraints, discretion to extend investment duration for UK regulated financial

- institutions by up to six months over the Council's external treasury advisor's suggested duration was also retained.
- 1.5.2 **Cash flow investment.** In 2020/21 cash flow surpluses averaged £29.3m and earned an average rate of return of 0.13%. The average 7-day LIBID rate, used to compare performance, was minus 0.07%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to Government, precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.
- 1.5.3 **Core cash investment.** In 2020/21 core cash averaged £17.4m and earned an average rate of return of 0.53%. The 3-month LIBID rate used as a comparator was 0.02%. Core cash comprises the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.
- 1.5.4 **Long-term Investment.** The availability of cash balances over the longer term (10 years) and the suitability of different types of long-term investment (equities, bonds, and commercial property) was explored in the report to Audit Committee, January 2017. Of the alternatives, investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.
- 1.5.5 This does not however, preclude consideration of an alternative investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return commensurate with the Council's risk appetite. Each such opportunity to be considered on a case-by-case basis as appropriate.
- 1.5.6 At the start of the year £5m was invested in property investment funds and no further sums were invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments may be made in the future as resources become available from asset disposals and other windfalls.
- 1.5.7 In 2020/21 investment in property funds averaged £5.0m and income of £172,177 was received which represents an annualised return of 3.42%.
- 1.5.8 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty, etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units

avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price.

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price (a) £	Sale value at date of purchase (b) £	Sale value March 2021 (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	931,800	(68,200)
Lothbury (Primary, July 2017)	1,000,000	927,700	926,500	(73,500)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	967,400	(32,600)
LAPF (Primary, June 2018)	1,000,000	922,200	893,500	(106,500)
Lothbury (Secondary, July 2018)	1,000,000	973,000	908,600	(91,400)
Total	5,000,000	4,684,100	4,627,800	(372,200)

1.5.9 Fund capital values rose in 2017/18, were broadly static in 2018/19 and 2019/20 until Covid-19 began to impact the economy. Capital values fell some 6% (£292,000) in the first nine months of 2020. However, since October 2020 fund values have been rising each month recouping some 40% (£116,000) of that decline. Capital values are expected to continue to rise over the long term as economic conditions improve. Members are reminded that our property fund investments are long-term (10 years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.10 **Summary.** Investment performance for the year 2020/21 is summarised in the table below:

	2020/21 Average balance £m	Return %	2020/21 Interest/ dividends earned £	2020/21 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	29.3	0.13	36,821	42,000	(5,179)
Core cash	17.4	0.53	91,955	90,000	1,955
Long term investment	5.0	3.42	172,177	156,000	16,177
Total	51.7	0.58	300,953	288,000	12,953

- 1.5.11 The overall performance of the Authority's investments bettered the revised estimates by £12,953 (and £224,047 less than the 2020/21 original estimates reflecting the impact of Covid-19 on investment returns).
- 1.5.12 In finalising the Council's revised estimates, the income estimate for cash flow was reduced from £105,000 to £42,000; the return from core cash was reduced from £209,000 to £90,000; and income from property funds reduced from £211,000 to £156,000.

1.6 Compliance with the Annual Investment Strategy

- 1.6.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counterparty credit criteria; maximum exposure limits in respect of sovereigns, counterparties, and groups of related counterparties; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2020 to March 2021 the requirements set out in the Annual Investment Strategy for 2020/21, as approved by Council in February 2020, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2020/21.

1.7 Treasury and Prudential Codes of Practice

- 1.7.1 Updated Treasury Management and Prudential codes of practice were published by CIPFA on 21 December 2017.
- 1.7.2 The Codes have been updated to address concerns arising from the Localism Act 2011 (commercialism agenda). The focus of both updates is to ensure the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. Non-financial assets will include the purchase of property to rent, shares and loans in subsidiaries or other outsourcing structures such as IT or building services providers.
- 1.7.3 Council adopted the December 2017 edition of the Codes in October 2018 and the requirements of the Codes have been considered and reflected as appropriate in this annual review.
- 1.7.4 The Council has no material non-financial investments. Property funds, as opposed to directly owned property, are used as part of the Council's treasury management activity.

Financial Services
May 2021

Prudential and Treasury Indicators

1 Prudential Indicators	2019/20 Actual £'000	2020/21 Original £'000	2020/21 Actual £'000
Capital expenditure	6,407	3,876	2,064
Ratio of financing costs to net revenue stream	-4.24%	-3.56%	-1.96%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	nil
Annual change in capital financing requirement	nil	nil	nil
Incremental impact of capital investment decisions:			
Increase in Council Tax (Band D) per Annum	£0.25	-£1.03	-£1.03

2 Treasury Management Indicators	2019/20 Actual £'000	2020/21 Original £'000	2020/21 Actual £'000
Authorised limit for external debt:			
Borrowing	nil	5,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	5,000	nil
Operational boundary for external debt:			
Borrowing	nil	2,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	2,000	nil
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	nil
Upper limit for variable rate exposure under one year at the year end	19,610 (49.5%)	40 – 100%	23,794 (64.7%)
Upper limit for total principal sums invested for over 365 days	5,000 (12.6%)	60%	5,000 (13.6%)

3 Maturity structure of new fixed rate borrowing during 2020/21	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil

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Extract from Revenue & Capital Outturn Booklet presented to Cabinet - 2 June 2021. Costs attributed to banking arrangements and transfers in lieu of interest are excluded.

DIRECTOR OF FINANCE & TRANSFORMATION

	ORIGINAL ESTIMATE £	2020/21 REVISED ESTIMATE £	PROVISIONAL OUTTURN £
4 <u>TREASURY MANAGEMENT</u>			
Employees			
Salaries	31,100	31,000	30,904
Supplies & Services			
Treasury Advisor & Dealing Fees	10,900	10,000	9,540
	<hr/>	<hr/>	<hr/>
	42,000	41,000	40,444
	<hr/>	<hr/>	<hr/>
Less Income			
Interest on:			
Cash Flow Investments	(105,000)	(42,000) a)	(36,821)
Core Cash Investments	(209,000)	(90,000) a)	(91,955)
Long Term Investments	(211,000)	(156,000) b)	(172,177) c)
	<hr/>	<hr/>	<hr/>
	(525,000)	(288,000)	(300,953)
	<hr/>	<hr/>	<hr/>
<u>Sub-total</u>	(483,000)	(247,000)	(260,509)
Central, Departmental & Technical Support Services			
Central Salaries & Administration	2,650	2,600	2,477
Information Technology Expenses	350	200	144
Departmental Administrative Expenses	14,700	14,850	14,922
	<hr/>	<hr/>	<hr/>
<u>TO SUMMARY</u>	(465,300)	(229,350)	(242,966)
	<hr/>	<hr/>	<hr/>
Full Time Equivalent Number of Staff (including Support Service Staff)	0.85	0.86	

Notes (a) and (b) relating to changes between 2020/21 original and revised estimates reported to FIPAB January 2021 have been added to the outturn presentation to aid understanding.

- a) Reflects the cut in Bank Rate from 0.75% to 0.10% in March 2020.
- b) Reflects the delay in the receipt of proceeds from the sale of River Walk offices which were due to be applied to new property fund investments and a small reduction in dividends anticipated from existing property fund investments due to Covid-19 impacts.
- c) Property fund dividends were more resilient to Covid-19 lockdowns than expected.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 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 For completeness the risks categorised as RED **at the time of the April meeting** is given below.

- 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

- 1.3.4 The risk in respect of the holding of local elections in May has now been removed from the SRR, and the heading “Elections” is no longer RED. **The other 5 risks remain RED.**

- 1.3.5 In terms of the risk ‘financial position/budget deficit’, Members are referred to the report submitted to Cabinet on 6 July 2021.

1.3.6 In terms of the risk 'Local Plan', Members are also referred to the report from the Director of Planning, Housing and Environmental Health that was presented to the Planning and Transportation Advisory Board on 29 June 2021.

1.3.7 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 April 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 five 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 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 to appropriate agencies where necessary and also raise with partners at the weekly CSU meetings.</p>	Safeguarding Policy	Chief Executive	Oct-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 (for as long as it exists).</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 to New Homes Bonus consultation sent April 2021</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>Report to Cabinet 6 July 2021 setting our new financial risks that require adjustment to STS and MTFS. During Budget cycle in Feb 21, 'New' funding gap of £475k identified of Savings needing 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. Cabinet report identified a FURTHER £1.3M of financial risk that has come to a head lately primarily as a result of Waste contract, Local Plan and climate change agenda. The £1.3M to be delivered in 2 parts of £650k by 25/26 and 26/27. It is therefore imperative that savings initiatives are both identified and implemented by the Council ASAP.</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.</p> <p>Ensure robust and regular monitoring of expenditure and income and take steps to adjust financial plans as needed in timely manner.</p>	<p>Vision- to be a financially sustainable Council. Taking a business-like approach.</p>	Director of Finance and Transformation	Oct-21

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
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. Self-isolation payments extended until Sept 21. TMBC to continue with payments 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	Sep-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. Further update to cabinet 6 July affecting both STS and MTFS. Measures recommended	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 (then) new funding gap of £475k within the next 4 years. Total savings therefore needed to be implemented of £975k AT THAT POINT. Further report to Cabinet 6 July 21 increasing the funding gap by £1.3M as a result of financial risks connected to Waste, Local plan and climate change. Measures recommended to Cabinet. Further report in October 21.	Vision- to be a financially sustainable Council focusing on ensuring good value for money, continuously reviewing how our services are provided and funded, focusing our available resources where they will have most beneficial impact, and maximising commercial opportunities. Taking a business-like approach.	Chief Executive / Director of Finance and Transformation/ Management Team	Oct-21

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
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	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). Members are regularly updated by email by the Planning Policy Manager and reports to P&TAB. Seeking Member approval to restart the process (in the event the challenges are unsuccessful)	3	3	9	Inspectors have been asked for an indication of timescale for receiving Final Report (but this could take a number of weeks) Ongoing engagement with Counsel Process and key tasks being scoped with Counsel. Timetable being prepared. Initial approaches to consultants. Duty to Cooperate meetings with neighbouring authorities maintained. PTAB endorsed 'Review, refine and resubmit' strategy, which requires Council approval 13/07/21	Local Plan assists in economic growth, delivering the supply of future housing and addressing affordability. Procedures set by National Government	Director of Planning, Housing and Environmental Health	Oct-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	Review of staff resources and skills via service reviews. Organisational structure reviews are part of S&TS to achieve efficiency, coordinated service delivery and reflect changing legislative and policy requirements and priorities.	3	4	12	Succession planning along with Development of further skills and expertise through strategies such as shared services and specialist Commissioning. Engagement of external consultants and specialists where required. Resilience and rationalisation of existing structures. Recruitment and retention strategy to be reviewed by MT. Pay award for 2021/22 1%. National Award yet to be determined Structural reviews approved by Members in 2017/18 and 2018/19. 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. Transitional arrangements to encourage development opportunities where appropriate.	HR Strategy Savings and Transformation Strategy	Director of Central Services and Deputy Chief Executive/ Chief Executive	Sep-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	Lone working policy and service based practices to be continuously monitored. Health and Safety considered by management at weekly SMT meetings. Staff involvement with JECC (supported by Members). Ongoing review undertaken to react to potential key risk areas. Organisational learning and response to national events. Incident and near miss reporting. 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.	2	3	6	Embedding and dissemination of good practice through staff briefings. Corporate Health and Safety Group (chaired by DPHEH) identifying cross organisational issues with feedback to Management Team and Health and Safety Officer. All services have reviewed all their Health & Safety local Procedures in particular Lone working and service specific risk assessments. 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. Corporate Health & Safety Policies and procedures are up to date and reviewed regularly which all staff can access. 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.	Staff wellbeing and customer care underpin the Council's fundamental service and corporate objectives	Director of Planning, Housing and Environmental Health	Oct-21

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
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 approved by Members in July 2019.</p> <p>Additional GDPR and Cyber Awareness Training 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, leading to revised protocol being agreed in April 2021.</p> <p>Delivery of audio/ visual technology in Chamber to enable transparent decision making and streaming</p> <p>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	Oct-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>	3	3	9	<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. Next ITHC due w/c 2/8/21.</p> <p>Planned review of firewall ruleset for Azure Q2/Q3 following Palo Alto firewall migration to Cloud in March 2021</p> <p>Implemented Forcepoint cloud based web filtering with roll-out commencing in June and planned Forcepoint email filtering migration to Cloud for July/August 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. Q2/Q3</p> <p>Further email to be sent out to all staff and members on cyber security vigilance July 21</p>	IT Strategy	Director of Finance and Transformation	Oct-21

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
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 launched in June 2021 to improve digital engagement for residents and businesses.</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 current industry standards. Expected to be completed in Q2 2021/2022.</p> <p>Migration of Telephony to the Cloud, to improve business continuity and functionality is underway. Expected to be completed in July 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 85% of staff already migrated.</p> <p>Investigating hybrid media conferencing solutions for on-site and remote workers. June / July 2021</p>	IT Strategy	Director of Finance and Transformation	Sep-21
11	Elections	R	<p>Failure to comply with legislation, miscounts and significant reputational impact.</p> <p>No scheduled Elections until May 2023.</p> <p>Local Boundary Commission Review announced - see report to Cabinet 30 June 2020. Full council briefing scheduled for September</p> <p>Parliamentary Review initiated by Boundary Commission January 2021</p>	01/04/2017 updated January 2021 updated June 2021	2	2	4	<p>Ensure experienced staff are in place, corporate team reviewing activity and monitoring progress.</p>	3	4	12	<p>Broadening of staff skills and experience to build resilience.</p> <p>Officer time will need to be directed to work with Boundary Commission</p>	Statutory requirement	Chief Executive	Oct-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> <ul style="list-style-type: none"> Business Continuity Plan. Corporate Business Continuity Risk Register Emergency Plans Disaster Recovery Plans Inter-Authority Agreements Mutual Aid Agreement Partnership agreement with Kent Resilience Team. Emergency Planning Support Officer. Duty Emergency Coordinator System and Duty Officer System introduced to provide greater resilience. Covid Secure rest centre plan has been developed 	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 regularly updated. DSSLTS sits on Kent Resilience Forum Strategic Board.</p> <p>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.</p> <p>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 on-going. 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	Oct-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. 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

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
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

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
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. 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. Universal Credit rolled out Nov 18 for Tonbridge & Maidstone Job Centres. 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. 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> <p>Extension of self-isolation payments to Sept 21</p>	Promoting Fairness - acting transparently at all times and being accountable for what we do, and promoting equality of opportunities. Embracing Effective Partnership Working - achieving more by working and engaging effectively with a wide range of local partners from the private, public, voluntary and community sectors.	Director of Finance and Transformation/ Director of Planning, Housing and Environmental Health	Oct-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 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	Member briefings and training sessions.	Underpins delivery of overall strategy and Savings and Transformation.	Chief Executive	As required

No	Risk Title	Risk Type	Consequences	Date identified	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 Councils 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 Civil Contingencies Act 2004 Kent Emergency Response Framework West Kent Partnership and Medway Catchment Partnership	Director of Street Scene, Leisure & Technical Services	Oct-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	Oct-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 recommenced. Consideration of date for roll out of new service to flats and subsequent reduction in bring bank sites to be reviewed.	Delivery of cost effective service to meet customer needs.	Director of Street Scene, Leisure & Technical Services	Sep-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.	
		Transitional Working Arrangements	Trial period due to start in September 2021	Ongoing.		
	Finance and Transformation		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.
			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	Emergency Generator currently under repair. Risk of power failure lasting longer than 20 minutes will result in failure or IT systems not held within Azzure Cloud.	Ongoing.	Part under order, details of date of arrival awaited.
			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
Page 124 Planning, Housing and Environmental Health	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 a backlog of food safety inspections due to restrictions on visiting/businesses closed. FSA guidance awaited but suspect locally we will need to manage.
	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	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. Further survey undertaken and report being analysed.
	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 undertaken 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.	Task and Finish Group has completed its review and made a number of recommendations relating to the health and safety management of the contract. The Health and Safety Executive are not pursuing the matter further with Urbaser following its recommendations but has made a number of recommendations which the contractor is implementing.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 THE CIPFA FINANCIAL MANAGEMENT CODE

In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published “The CIPFA Financial Management Code”. This report provides an overview of the Code and the outcome of a self-assessment to demonstrate compliance.

1.1 Introduction

1.1.1 In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, and would for the first time set standards of financial management for local authorities in the UK.

1.1.2 Members were advised at the consultation stage that none of this should be of particular concern as we believe the Council’s financial management arrangements already comply with the CIPFA Financial Management Code principles of good financial management for an authority of its size, responsibilities and circumstances.

1.1.3 There were at that time however a few areas identified to follow up / for further consideration:

- refresher training for staff on Financial Procedure Rules and good budget management
- financial training for Members – training sessions on the council’s finances, risk management, treasury management and statement of accounts arranged following the 2019 Borough Election.
- more regular benchmarking
- the finalisation of the Asset Management Plan – an Asset Management Plan approved by the Finance, Innovation and Property Advisory Board, Cabinet and Council in January 2020.

1.1.4 The Code is to be applied from the year 2020/21 with a view to full compliance the following year.

1.2 The CIPFA Financial Management Code

1.2.1 The CIPFA FM Code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances
- manage financial resilience to meet unforeseen demands on services
- financially manage unexpected shocks in their financial circumstances.

1.2.2 The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and sought to rely on the local exercise of professional judgement backed by appropriate reporting. The principles are designed to assist in determining whether, in applying standards of financial management a local authority is financially sustainable:

- 1) Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- 2) **Accountability** – based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- 3) Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- 4) Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- 5) Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- 6) The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

1.2.3 Demonstrating this compliance is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

1.2.4 To enable authorities to test their conformity with the principles of good financial management the FM Code translates these principles into Financial Management Standards.

1.2.5 Members of this Committee may be familiar with the report presented to Cabinet on 6 July 2021 setting out the latest position in terms of the Medium Term Financial Strategy, and the Savings and Transformation Strategy. In that report, reference was made to this Code particularly with regard to taking a long-term view and in the delivery of any required savings. Members may find the following extract helpful:

*“While the statutory local authority budget setting process continues to be on an annual basis, **a longer-term perspective is essential** if local authorities are to demonstrate their financial sustainability. **Short-termism runs counter** to both sound financial management and sound governance”.*

1.3 Compliance

1.3.1 Compliance will typically, but not always, be demonstrated by documenting compliance by way of a self-assessment.

1.3.2 Attached at **[Annex 1]** is the outcome of such an assessment using a RAG rating for each of the seventeen Financial Management Standards where it can be seen a **green rating** has been assigned to all but two of the Standards.

1.3.3 The two Standards assigned an **amber rating** are stakeholder engagement and business cases.

1.3.4 It is not that we do not comply in all significant respects. However, when an organisation is prioritising its activities and seeking a balance between its service delivery aspirations and available resources (a position that TMBC will be in in the very near future as set out in the Cabinet report 6 July 2021) – stakeholder engagement will require particular attention. On business cases, the Management Team will need to give consideration to the adoption of an appropriate documented option appraisal methodology to demonstrate value for money.

1.4 Legal Implications

1.4.1 Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation.

1.4.2 Since these are minimum standards, CIPFA’s judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration.

1.5 Financial and Value for Money Considerations

- 1.5.1 It is clearly of utmost importance that an organisation can demonstrate and evidence good practice in financial management and as such welcome a Code against which practice can be judged.

1.6 Risk Assessment

- 1.6.1 Clearly, the absence of good practice in financial management puts at risk the integrity of the Council's finances and at worse its financial sustainability.

1.7 Equality Impact Assessment

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

1.8 Policy Considerations

- 1.8.1 Good practice in financial management is relevant across all areas of the Council's business.

1.9 Recommendations

- 1.9.1 Members are asked to **NOTE** the outcome of the self-assessment to demonstrate compliance with the CIPFA Financial Management Code.

Background papers:

Nil

contact: Neil Lawley
Sharon Shelton

Sharon Shelton
Director of Finance and Transformation

Schedule of CIPFA Financial Management Standards

Principles	Financial Management Standards	Section 1 The Responsibilities of the Chief Finance Officer and Leadership Team
Leadership	A	The leadership team is able to demonstrate that the services provided by the authority provide value for money
		<p>The authority has a clear governance structure and scrutiny arrangements where collective responsibility for value for money is made explicit. The Management Team of the Council includes senior representatives from a variety of disciplines, including the Chief Executive, Monitoring Officer and Chief Finance Officer and Service Directors.</p> <p>Key financial decisions are discussed collectively at Management Team and with respective elected members through informal briefings and at Cabinet and Full Council. The advice of the CFO is taken into account in decision-making.</p> <p>All reports to both Management Team and Members where there are financial implications should be shared with Financial Services for comment and or advice as appropriate. All decision items include a section on financial and value for money considerations.</p> <p>The Constitution includes Financial Procedure Rules and Contracts Procedure Rules which set out the framework for financial decision-making, financial management and control and tendering, procurement and contract monitoring arrangements.</p> <p>A robust monthly budget monitoring regime is in place with regular reports to both MT and the Finance, Innovation and Property Advisory Board on performance against budget throughout the year.</p> <p>The Council has an effective internal audit and counter fraud function and risk management process with regular update reports to the Audit Committee throughout the year.</p>

		<p>The Council's Audit Committee provide independent challenge and scrutiny of the Council's financial management and reporting, internal control, risk management and governance arrangements.</p> <p>External Audit assessment of VFM as part of the audit of the financial statements reported to the Audit Committee.</p> <p>All of the above assists in ensuring value for money in the delivery of services.</p>
Leadership	B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government
		The Annual Governance Statement includes specific reference confirming compliance with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
		Section 2 Governance and Financial Management Style
Assurance	C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
		<p>The Council has adopted a Local Code of Corporate Governance in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016) which is subject to annual review.</p> <p>The Annual Governance Statement and opinion of the Chief Audit Executive on the governance, risk management and control framework provide further assurance.</p>
Accountability	D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)
		<p>The Council has adopted a Local Code of Corporate Governance in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016) which is subject to annual review.</p> <p>The Council maintains an effective Audit Committee and has an Internal Audit function that conforms to Public Sector Internal Audit Standards.</p>
Sustainability	E	The financial management style of the authority supports financial sustainability
		Budget responsibility and the budgetary control framework is clearly understood and applied across the organisation. Budget responsibility and budgetary control is

		<p>devolved to Services supported by Financial Services. Regularly update reports on key budget areas and financial planning and control are presented to Management Team and the Finance, Innovation and Property Advisory Board.</p> <p>The Finance function is highly respected by service managers, senior management and Members and its advice valued where good working relationships have been developed across all service areas.</p>
		Section 3: Medium to Long Term Financial Management
Assurance	F	The authority has carried out a credible and transparent financial resilience assessment
		<p>The Council's Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. Financial resilience is tested as part of this process by consideration of alternative scenarios and their subsequent impact.</p> <p>The CIPFA financial resilience index is also included in the budget papers as a further indicator of resilience and prompt challenge where it may be needed.</p> <p>The external auditor as part of the audit of accounts process will consider the financial standing of the authority and comment as appropriate.</p>
Sustainability	G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
		<p>The Council's Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. This will include projected reserve balances over the 10-year period and identify the need to take corrective action if in any one year the reserve balance will fall below the minimum level set by the Council.</p> <p>Two fundamental objectives are to achieve a balanced budget and to retain a minimum of £3m in the general revenue reserve by the end of the strategy period, and not to fall below £2.0m at any time during the 10-year period.</p>

		<p>The MTFS identifying the savings to be achieved and the associated timescale if the objectives are to be met.</p> <p>Alongside the MTFS sits a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council.</p>
Standards	H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
		<p>The Council has both a Capital Strategy and a Treasury Management and Annual Investment Strategy which is subject to approval as part of the annual budget setting process with regular reporting of treasury management activity to the Audit Committee during the year as required under the Treasury Management Code of Practice. It also has an Asset Management Plan to aid the review of the sufficiency and suitability of assets in the light of business needs.</p>
Sustainability	I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
		<p>The Council's Medium Term Financial Strategy covers both revenue and capital budgets over a rolling ten-year period and it is this Strategy that underpins the budget setting process for the forthcoming year and over the strategy period. The aim of the MTFS is to give us a realistic and sustainable plan that reflects the Council's priorities. Alongside the MTFS sits a Savings and Transformation Strategy. The purpose of the Strategy is to provide structure, focus and direction in addressing the financial challenge faced by the Council. A number of key themes have been identified, together with outline targets and timescales to track progress.</p>
		Section 4: The Annual Budget
Standards	J	The authority complies with its statutory obligations in respect of the budget setting process
		<p>A detailed work plan and timetable is prepared in advance of the annual budget setting process to ensure timely completion of tasks including compliance with statutory obligations.</p>

Standards	K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves
		A statement on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides is presented as part of the budget report to Cabinet.
		Section 5: Stakeholder Engagement and Business Cases
Transparency	L	The authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget
		The Council's financial strategy is aligned with its corporate strategy and is subject to annual review as part of the budget setting process with input from all Members via the Finance, Innovation and Property Advisory Board, Overview and Scrutiny Committee, Cabinet and Council.
Transparency	M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
		There is a financial and value for money considerations section in all Member reports. No one option appraisal methodology is used, but that which it is considered will provide the requisite information to allow an informed decision to be made.
		Section 6: Performance Monitoring
Assurance	N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
		Regular update reports on financial planning and control are reported to the Finance, Innovation and Property Advisory Board giving details of in year performance compared to budget and its impact on the Medium Term Financial Strategy where ongoing. Cabinet is also updated as appropriate on key issues. Management Team receive regular updates on key budget areas, together with progress on meeting the in-year savings target set out in the Savings and Transformation Strategy that sits alongside the MTFS.

		Services are required to undertake monthly budget monitoring and report the outcome to Financial Services. This highlighting areas for further explanation / of concern. Updates on the risk management process may also identify areas where there are one off or ongoing financial implications.
Assurance	O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
Budget		Budget performance, treasury management activity, business rates and council tax collection rates and outstanding general fund debt are reported to senior management, Management Team and the Finance, Innovation and Property Advisory Board as appropriate throughout the year to ensure good financial management is embedded within the organisation.
		Section 7 External Financial Reporting
Accountability	P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom
		The Council has a robust and well-established closure of accounts process, and good working relationship with the external auditor. The Accounts are prepared ready for audit by mid-May with the external auditor complimenting the officers on the standard of the working papers accompanying the accounts.
Accountability	Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions
		The revenue and capital outturn position is reported to both Management Team and Cabinet to allow strategic financial decisions to be made in light of the outturn position.

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Management Team

Part 1- Public

Delegated

1 ANNUAL GOVERNANCE STATEMENT 2020/21

This report presents the Annual Governance Statement for the year ended 31 March 2021 for Members' endorsement. The Annual Governance Statement is signed by both the Leader of the Council and the Chief Executive and accompanies the Statement of Accounts 2020/21.

1.1 Introduction

- 1.1.1 It is seen as good practice for local authorities to prepare and adopt a Local Code of Corporate Governance. The current Local Code of Corporate Governance is presented elsewhere on this agenda and this has been used for the purposes of the Annual Governance Statement.
- 1.1.2 The Annual Governance Statement accompanies the Statement of Accounts, but is not part of the Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation. Governing is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.
- 1.1.3 The Annual Governance Statement for the year ended 31 March 2021 is attached at **[Annex 1]**. The Statement has been prepared by way of a self-assessment questionnaire and supporting evidence. The same as that accompanying the Local Code of Corporate Governance agenda item. The Statement is signed by the most senior Member and officer of the Council.

1.2 Legal Implications

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

1.3 Financial and Value for Money Considerations

- 1.3.1 As set out in the papers.

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Recommendations

- 1.6.1 Members are asked to endorse the Annual Governance Statement for the year ended 31 March 2021.

Background papers:

Nil

contact: Neil Lawley
Paul Worden

Sharon Shelton

Director of Finance and Transformation on behalf of the Management Team

ANNUAL GOVERNANCE STATEMENT

Purpose of this Statement

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

Scope of responsibility

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

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

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

The purpose of the governance framework

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

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

The governance framework has been in place at Tonbridge & Malling Borough Council for the year ended 31 March 2021 and up to the date of approval of this statement.

The governance framework

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

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

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

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

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

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

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

Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

The Council has published a Corporate Strategy. The Strategy sets out Our Vision: To continue to be a financially sustainable Council with strong leadership that delivers valued services, a commitment to delivering innovation and change to meet the needs of our Borough guided by our values and priorities: Achieving efficiency; Embracing effective partnership working and funding; Valuing our environment and encouraging sustainable growth; and Innovation. In 2020/21 a one-year addendum added to the Corporate Strategy to provide a framework within which to consider a wide range of issues in response to the Covid-19 pandemic and development of a future recovery plan.

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

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

Value for money considerations are set out in all Member reports where relevant. The social impact of decisions is considered throughout the decision making process, including the carrying out of an

Equalities Impact Assessment. Where relevant, policies are subject to a Strategic Environmental Impact Assessment prior to adoption.

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

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

The Corporate Strategy and in 2020/21 the one-year addendum provide a reference point for the actions we take to maintain and improve the services which are most important to the local community whilst taking into account a much reduced level of funding. The delivery of the Corporate Strategy and the one-year addendum is supported by operational plans prepared by individual services, which in turn are fed down to team and individual objectives through performance management arrangements.

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

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

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

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

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

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

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

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

Specific issues that required corporate ownership, action and monitoring in 2020/21 and identified as high risk areas on the Strategic Risk Register included the waste services contract, council finances, the Local Plan and County Council and Police and Crime Commissioner elections.

Throughout 2020/21 the Covid-19 pandemic had a profound impact across service areas, businesses and the wider community and continues to do so. We will not know the full extent of the impact for some time. In looking forward it is assumed that the reductions in income and increased costs seen as a result of the pandemic will in large part return to pre Covid-19 levels in the short to medium term. The extent and speed of the recovery will need to be closely monitored and to take corrective action if this is proved not to be the case.

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

The Council has an effective Internal Audit function which operates in line with proper practices; for 2020/21 this is governed by the Public Sector Internal Audit Standards and the CIPFA application note to the Standards. The Chief Audit Executive role meets the requirements as set out in the CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations. The Audit Committee are responsible for the Council's anti-fraud, bribery and corruption arrangements including whistleblowing. The Chief Audit Executive is responsible for the maintenance of the Council's Anti-Fraud, Bribery & Corruption Policy and Whistleblowing Policy and has arrangements and resources in place to investigate any allegations made under either document.

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and comply with the CIPFA Financial Management Code principles of good financial management for an authority of its size, responsibilities and circumstances. The Council's financial information and reporting arrangements are sound and the external auditor following the 2019/20 audit concluded in all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

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

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

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

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

The Review of Effectiveness of the System of Internal Audit for the year 2020/21 concluded that a good system of internal audit is in place within the Council.

Review of effectiveness

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

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

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

Signed

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

Dated 25 May 2021

Signed

Councillor N. J. Heslop
Leader of the Council

Dated 25 May 2021

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 STATEMENT OF ACCOUNTS 2020/21 AND PROGRESS UPDATE ON THE AUDIT OF THE ACCOUNTS

This report presents an unaudited set of Accounts for 2020/21 in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom.

1.1 Introduction

1.1.1 An audited set of Accounts for 2020/21 must be approved by the Council or a Committee of the Council by no later than 30 September 2021. Under the Council's Constitution responsibility for the approval of the Statement of Accounts is delegated to this Committee. The Accounts include the adjustments in light of the outturn position set out in the Revenue and Capital Outturn 2020/21 report to Cabinet on 2 June 2021.

1.1.2 This report presents an unaudited set of Accounts for 2020/21 **[Annex 1]** for information. The Engagement Lead and or their representative will be at the meeting to give a verbal progress update on the audit of the Accounts.

1.2 Statement of Accounts

1.2.1 The Accounts are to be prepared in accordance with International Financial Reporting Standards. The Code of Practice on Local Authority Accounting in the United Kingdom is issued by the Chartered Institute of Public Finance and Accountancy and is reviewed and as appropriate updated at least annually. There have been no material changes to the presentation of the Accounts for 2020/21.

Covid-19 Pandemic

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

- Property Plant and Equipment and Investment Property – Property values are based upon market values and are periodically reviewed to ensure that

the Council does not materially misstate the value of its property, plant and equipment and investment property. After discussing the issue with the Council's External Valuers their response is as follows: "This valuation has been undertaken during the Covid-19 pandemic which has impacted commercial and leisure uses and resultingly investment markets. It is likely that this will be a year of exceptional circumstances in which values may not be representative of longer term market value."

- Property investment funds – the Fund managers are no longer expressing material uncertainty in valuations.
- Pension Fund Assets and Liabilities – The Pension Fund Administrators, Kent County Council, has engaged Barnett Waddingham as its consulting actuary to provide expert advice about the assumptions to be applied. The report and assumptions received from the actuary have adjusted for the increased rate of deaths surrounding Covid-19 and its impact on overall mortality rates.
- Collectability of debt – It is prudent to establish a provision (impairment allowance) for non-payment of debt. The impact of the Covid-19 pandemic could potentially have an adverse impact on collectability of debt and will be the subject of ongoing review.

1.2.3 An unaudited set of Accounts for 2020/21 is enclosed with this agenda. It consists of the following individual financial statements and associated notes.

- 1) Comprehensive Income and Expenditure Statement – this Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The taxation position is shown in the Movement in Reserves Statement.
- 2) Movement in Reserves Statement – this Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (those that can be applied to fund expenditure and or reduce local taxation) and other reserves (those that the Council is not able to use to provide services, for example, the revaluation reserve).
- 3) Balance Sheet – sets out the financial position of the Council at 31 March 2021. It shows the value of the Council's assets and liabilities, and its balances and reserves.
- 4) Cash Flow Statement – this summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes.
- 5) Notes to the financial statements.

- 6) Collection Fund and Associated Notes – shows the total local taxation transactions in relation to council tax and business rates.

- 1.2.4 At **[Annex 2]** is a more detailed overview of the Statement of Accounts and at **[Annex 3]** a checklist certified by the Director of Finance and Transformation in support of the assertions made in the Statement of Responsibilities for the Statement of Accounts.
- 1.2.5 Members will note in accordance with the Accounts and Audit Regulations and in my role as the Council's responsible financial officer, I have certified that the Statement of Accounts present a "true and fair view" of the financial position of the local authority at the end of the year and its income and expenditure for the year.
- 1.2.6 The Statement of Accounts is subject to external audit and our external auditors commenced the audit of the Accounts at the beginning of July and a verbal progress update is to be given at the meeting.

1.3 Accounts and Audit Regulations

- 1.3.1 The Accounts and Audit Regulations require:

- The Council's responsible financial officer to certify an unaudited set of accounts for issue, that present a "true and fair view" of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021, on or before the first working day of August 2021.
- The responsible financial officer and Members to certify / approve an audited set of accounts for publication by no later than 30 September 2021 and that following approval both the responsible financial officer and Chairman of the receiving Committee sign and date the Statement of Accounts.
- Authorities to have in place a sound system of corporate governance and that an Annual Governance Statement is to accompany, but is not part of the Accounts.

1.4 Statement of Auditing Standards

- 1.4.1 Our External Auditor is required to issue a report to those charged with governance covering, amongst other things, the outcome of the audit of the Accounts. Under the Council's Constitution it is the Audit Committee that will receive this report. The report is expected to be presented to the Audit Committee meeting on 27 September 2021.

1.5 Annual Governance Statement

- 1.5.1 The Annual Governance Statement can be found elsewhere on this agenda. The Statement accompanies the Statement of Accounts, but is not part of the

Accounts. The purpose of the Annual Governance Statement is to assess and demonstrate that there is a sound system of corporate governance throughout the organisation. Governing is about how local government bodies ensure they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.

- 1.5.2 The Statement is prepared by way of a self-assessment questionnaire and supporting evidence. The Statement is to be signed by both the most senior Member and officer of the Council.

1.6 Legal Implications

- 1.6.1 Compliance with the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting in the United Kingdom is a statutory requirement. There are a number of legislative requirements to consider in the preparation and publication of the Statement of Accounts which will be addressed as we move through the closedown process.

1.7 Financial and Value for Money Considerations

- 1.7.1 The proposed fee for the audit of the 2020/21 Accounts is £58,248. This compares to a current budget provision of £42,750. Albeit councils are to receive additional government grant funding in recognition of changes to the scope and depth of audit work required, and await notification of our grant allocation as a result.

1.8 Risk Assessment

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

1.9 Equality Impact Assessment

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

1.10 Recommendations

- 1.10.1 Members are **RECOMMENDED** to:

- 1) Note and endorse the enclosed unaudited set of Accounts for 2020/21.
- 2) Note the Statement provided by the Director of Finance and Transformation **[Annex 3]** in support of assertions made in the Statement of Responsibilities for the Statement of Accounts.
- 3) Note the progress update on the audit of the Accounts for 2020/21.

Background papers:

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

contact: Paul Worden
Neil Lawley

Sharon Shelton
Director of Finance and Transformation

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Overview of Statement of Accounts 2020/21

The Statement of Accounts 2020/21 consists of, amongst other things, the following financial statements and associated notes; the Comprehensive Income and Expenditure Statement; the Movement in Reserves Statement; the Balance Sheet; the Cash Flow Statement; and the Collection Fund.

1) Narrative Report (Pages 1 to 16)

The report provides, amongst other things, an overview of the Borough Council; a brief explanation of the financial aspects of the Council's activities for the year 2020/21; a review of the year; and possible issues for the future.

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

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

3) Comprehensive Income and Expenditure Statement (Page 18)

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

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

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

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

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

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

The total comprehensive income and expenditure for the year is 5.8m compared to -£7.2m in 2019/20. The movement of £13m is largely due to:

- Decrease in net cost of services of £1.5m due in part to reduced pension costs under IAS 19.
- A net loss in the fair value of investment properties of £1.8m.
- Increase in taxation and non-specific grant income of £1.4 largely due to Covid-19 related government grant funding.
- A net gain of £0.2m on revaluation of non-current assets. This compares to a net gain of £5.6m in 2019/20.
- Actuarial losses of £4.9m in respect of the Pension Fund. This compares to an actuarial gain of £3.5m in 2019/20.

4) Movement in Reserves Statement (Page 19)

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

5) Balance Sheet (Page 20)

This sets out the financial position of the Council as at 31 March 2021. The Balance Sheet is fundamental to the understanding of the Council's year-end financial position. It shows the Council's assets and liabilities, and its balances and reserves.

As at 31 March 2021 the total value of the Council's non-current assets was £92.5m (£95.7m at 31 March 2020). Movements in non-current assets reflect the Council's capital programme and revaluation, depreciation, impairment and disposal of assets.

In accordance with the rolling programme council offices were the subject of revaluation. In addition to council offices, leisure premises and car parks where material were also the subject of revaluation by our external valuers. Heritage asset values have been reviewed and uplifted to reflect the insured value of the asset. The resulting revaluation was a net gain of £112,000, of which £176,000 is recognised in the revaluation reserve and £64,000 recognised in the (surplus) / deficit on provision of services in the Comprehensive Income and Expenditure Statement.

The upward movement in the gross value of debtors is largely due to amounts owed by Central Government under the Business Rates Retention Scheme and in respect of Covid-19 related financial support; by local authorities in respect of business rates and council tax; and by NNDR Payers.

The upward movement in creditors is largely due to amounts owed to Central Government in respect of the Covid-19 Business Rates Grant Funded Schemes and an increase in prepayments by NNDR Payers offset by amounts owed to local authorities in respect of business rates and council tax and other creditors.

The upward movement in provisions of £0.7m is due to the increase in the provision to meet our share of the cost arising from successful appeals by business ratepayers.

The Pensions Liability as at 31 March 2021 was £61.2m and as at 31 March 2020 £55.2m. The change in the pension fund deficit over the year is mainly dependent on asset returns, corporate bond yields and market expectations of inflation which when taken together has resulted in an increase in the pension fund deficit compared to the previous year.

The Council's Reserves stand at £34.6m at 31 March 2021 comprising:

Revenue Reserve for Capital Schemes	£7.6m
Building Repairs Reserve	£0.9m
Property Investment Fund Reserve	£1.7m
Other Specific Earmarked Reserves	£17.3m (includes £9.8m to meet loss of business rates income accounted for in the following year)
General Revenue Reserve	£7.1m

6) Cash Flow Statement (Page 21)

This summarises the inflows and outflows of cash and cash equivalents for both revenue and capital purposes. The net cash inflow of £2.2m can largely be attributed to movement of investments from fixed term deposits to liquid accounts (money market funds / notice accounts) which are treated as cash equivalents.

7) Notes to the Accounts (Pages 22 to 69)

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

8) Collection Fund and Associated Notes (Pages 70 to 73)

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

9) Annual Governance Statement (Pages 74 to 77)

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

10) Independent Auditor's Report (Pages 78 to 79)

The Council's external auditors provide an independent opinion on whether the financial statements present a "true and fair view" of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021, and review the Annual Governance Statement.

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

This statement is given in respect of the Statement of Accounts 2020/21.

I acknowledge my responsibility for preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21; and that the Accounts present a “true and fair view” of the financial position of the Council and of its income and expenditure for the year ended 31 March 2021.

In doing so, the following have been done:

- A detailed closedown timetable was prepared and approved by the Corporate Management Team, and communicated to all Services.
- Detailed Year-End Service Guidance Notes were prepared and issued to all Services.
- Recommendations made by our external auditors following the audit of the 2019/20 Statement of Accounts have been reviewed and actioned where appropriate.
- Reconciliations have been carried out between the Council’s financial ledger (Integra) and the Revenues & Benefits system (iWorld).
- The trial balance has been balanced.
- The total for each accountant as per the trial balance has been agreed to the net total as per the ledger control sheets.
- The Total Service Expenditure as per the General Fund has been agreed to the movement in the General Fund on the Integra General Ledger.
- The non-current assets entries in the Balance Sheet are in line with valuations and other known transactions.
- The entries within the Collection Fund have been agreed with other financial statements in the Statement of Accounts and the Council Tax set by the Council on 18 February 2020 and other major precepting authorities.
- The total expenditure chargeable to the general fund and reserve balances shown in the Expenditure and Funding Analysis agrees to the net increase/decrease in general fund and reserve balances shown in the Movement in Reserves Statement.

- The total comprehensive income and expenditure for the year as shown in the Comprehensive Income and Expenditure Statement has been agreed to the Total Reserves movement reflected in the Balance Sheet.
- The movement in cash and cash equivalents as per the Cash Flow Statement has been agreed with the movement in the cash and cash equivalents balances as per the Balance Sheet.
- An Analytical Review with explanatory notes of significant variations between 2019/20 and 2020/21 has been prepared.
- In preparing these Accounts due regard has been taken of the CIPFA Bulletin 09: Closure of the 2020/21 Financial Statements.

Signed:

Dated: 25 May 2021

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

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Chief Audit Executive

Part 1- Public

Delegated

1 REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

This report informs Members of the findings of the annual review of the effectiveness of the Internal Audit function for the year 2020/21.

1.1 Introduction

- 1.1.1 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that periodic self-assessments are conducted to evaluate conformance with the PSIAS Code of Ethics and Standards. To ensure compliance with this element of PSIAS an annual internal review of the effectiveness of the Internal Audit function is undertaken. The Chief Audit Executive has conducted the review of effectiveness for the year 2020/21 and a summary of the findings of this review is attached at **[Annex 1]**.
- 1.1.2 It is important to note that the review is about effectiveness, not process. As well as conformance with professional standards the focus of the review should be on the delivery of internal audit to the standard required by the Council in order for the Council to be able to place reliance on its work.
- 1.1.3 The findings of the review of effectiveness are reported to Management Team. Management Team, following consideration of the outcome of the review, then agree an opinion as to whether the review demonstrates that the Internal Audit function in place for the year 2020/21 was effective, using the opinion definitions set out below.

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

1.1.4 It was concluded by Management Team that the opinion on the effectiveness of the Internal Audit function in place for the year 2020/21 was Good.

1.2 Legal Implications

1.2.1 The Accounts and Audit Regulations place a statutory requirement on authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Proper practice is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

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

1.3 Financial and Value for Money Considerations

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

1.4 Risk Assessment

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

1.5 Equality Impact Assessment

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

1.6 Recommendations

- 1.6.1 Members are asked to consider the findings of the review and endorse the opinion that the effectiveness of the Internal Audit function for the year 2020/21 was Good.

Background papers:

contact: Richard Benjamin

Nil

Jonathan Idle
Chief Audit Executive

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Summary of Measures to demonstrate the effectiveness of Internal Audit – 2020-21 Review

Measure	Finding
<p>Review of the Internal Audit team against proper practice, as defined as the <i>Public Sector Internal Audit Standards and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards</i>.</p>	<p>The Public Sector Internal Audit Standards (PSIAS) and the CIPFA Local Government Application Note to the Public Sector Internal Audit Standards were introduced as proper Practice from 1 April 2013 (amended April 2017). The PSIAS require a periodic Internal Assessment and a five-yearly independent External Assessment</p> <p>A comprehensive annual internal assessment was undertaken in October 2019; the self-assessment established a number of areas regarding processes and practice where there was only partial compliance. An action plan produced and items on this plan were addressed during 2020 and putting Internal Audit in a position of 'Generally Conforming' with the PSIAS.</p> <p>An External Quality Assessment was commissioned in January-February 2021 and was undertaken by 'Business Risk Solutions'. The outcome of the assessment was: 'Tonbridge and Malling Borough Council Internal Audit service is delivering to a standard that generally conforms with the Public Sector Internal Audit Standards'</p> <p>The assessment raised a number of improvements and enhancements that are being captured in an action plan which will be addressed, and progress will be reported to Audit Committee.</p>
<p>The internal audit planning process, demonstrating that audit planning is risk-based and reflects the business objectives of the Council.</p>	<p>The annual audit planning exercise for the 2020/21 financial year used a risk-based methodology to ensure the most effective use of Internal Audit resource. Review of the 2020/21 Plan and subsequent changes during the year established that there was a good level of alignment to Council strategies and key risks. The same approach has been taken to the annual planning for 2021/22.</p>

Summary of Measures to demonstrate the effectiveness of Internal Audit – 2020-21 Review

Measure	Finding
Customer Satisfaction survey results.	Customer satisfaction surveys are sent to client managers on publication of a final internal audit report. The results of surveys returned in 2020-21 to date gave an overall satisfaction measure of 98% (based on 5 surveys received at time of reporting). This is an improvement on 2019-20 where satisfaction was 94%. Surveys are being reviewed to identify any key themes and actions to address.
Key performance indicator outturns.	<p>A set of six performance measures was used to assess the effectiveness of the Internal Audit team in achieving a quality Internal Audit Service for 2020-21. As reported in the Annual Internal Audit and Counter Fraud Report 2020-21, during the year the team met four of the six Internal audit performance measures. For the remaining two:</p> <p><i>Implementation of Improvement actions from quality assessments (Target 90%):</i> Although 100% of actions from the 2019/20 Internal Assessment have been implemented, the external quality assessment was completed and report issued in May 2021. The Action plan is presented to Audit Committee in July.</p> <p><i>Time from end of fieldwork to Draft Report – % within 10 working days (Target 85%):</i> This stands at 67% for the year. This is an improvement on 50% last year but still fell below target. A further 3 audits missed the 10-day target by 3 days which would have enabled the achievement of the KPI. Not achieving the target set was due, in the majority of cases, to current processes for reviewing audit files and reports before issue, and workloads and working arrangements during the year.</p>

Summary of Measures to demonstrate the effectiveness of Internal Audit – 2020-21 Review

Measure	Finding
The extent to which reliance can be placed on the work of internal audit by the external auditor.	In planning for the 2020/21 audit, the external auditor concluded – our review of internal audit work has not identified any weaknesses which impact on our audit approach.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Chief Audit Executive

Part 1- Public

Matters for Information

1 OPINION OF THE CHIEF AUDIT EXECUTIVE ON THE FRAMEWORK OF GOVERNANCE, RISK MANAGEMENT AND CONTROL, TOGETHER WITH THE ANNUAL INTERNAL AUDIT REPORT AND ANNUAL COUNTER FRAUD REPORT FOR THE YEAR 2020/21

This report informs Members of the opinion of the Chief Audit Executive on the Council's framework for governance, risk management and control, together with the Internal Audit work completed during 2020/21 to support that opinion. In addition, the report also informs Members on the work of the Counter Fraud function in 2020/21.

1.1 Introduction

1.1.1 The Accounts and Audit Regulations 2015 require the Council to *undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*. Proper practice is defined by the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

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

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

Purpose of the framework of governance, risk management and control

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

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

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

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

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

- Assurance Opinions from audit assignments;
- The level of implementation by management of agreed actions to improve internal control and the management of risk.
- Wider knowledge of key risks and operations by the Chief Audit Executive

1.2.4 The opinion on the framework for governance, risk management and control is principally based upon the evaluation of the findings, conclusions and assurances from the work of the Internal Audit function during 2020/21, full details of which are provided in this report. The Chief Audit Executive has also considered the key risks facing the authority. While all audit results are considered, including the outcomes of any consultancy work, any other reliable sources of assurance are identified and, where appropriate, considered when arriving at an overall opinion.

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

In my capacity as the Chief Audit Executive, with responsibility for the provision of Internal Audit services to the Council, it is my opinion that Tonbridge and Malling Borough Council's framework of governance, risk management and control **substantially** contributed to the proper, economic, efficient and effective use of resources in achieving the Council's objectives during 2020/21.

Whilst it has been identified that the authority has largely established substantial and effective internal controls within the areas subject to Internal Audit review in 2020/21, there are areas where compliance with existing controls should be enhanced or strengthened, or where additional controls should be introduced. Where such findings have been made by Internal Audit, recommendations have been made to management to improve the controls within the systems and processes they operate. Progress against these recommendations during 2020/21 has been good.

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

1.3 Internal Audit and Counter Fraud Establishment

- 1.3.1 The Internal Audit and Fraud Team report to the Audit and Assurance Manager, who in turn reports to the Head of Internal Audit (Chief Audit Executive).
- 1.3.2 The Internal Audit and Counter Fraud Establishment comprises one senior internal auditor; a temporary staff budget to buy-in circa 100 days of audit resource; one full-time fraud officer; one vacant fraud assistant (this post to also provide support to internal audit as required) and one Intelligence Assistant. Since May 2015, the Fraud Manager, Audit and Assurance Manager and Chief Audit Executive post has been secured by way of a shared management arrangement with Kent County Council.
- 1.3.3 The internal auditor or fraud officer assigned to each audit/fraud review is selected by the Audit and Assurance Manager based on their knowledge, skills, experience, discipline and any declared conflicts of interest to ensure that the review is conducted effectively. If a review calls for specialist skills/experience beyond that within the team, arrangements would be put in place to secure specialist skills from KCC as part of the partnership arrangement or from an external contractor if that is not possible.

1.4 Annual Audit Plan

- 1.4.1 The Annual Internal Audit and Counter Fraud Plan (the Plan) for 2020/21 was approved by this Committee on 27th July 2020 which was 3 months later than usual due to Audit Committee in April 2020 being cancelled. The Plan set out the proposed work of the Internal Audit team for the year which can be summarised into two key work types:
- 1.4.2 *Assurance Work* – this relates to audit work which informs the opinion of the control environment given to the Committee by the Chief Audit Executive. This work focuses on planned audit review of key financial systems, other financial systems, operational audits and control environment reviews and also picks up on the follow up of audit recommendations made.
- 1.4.3 *Consultancy Work* – this relates to Internal Audit team members involvement in corporate and other known projects, requests received by the team for consultancy or responsive work, advice or information and involvement in fraud investigation work. While not directly proving assurance, the results of this work are also considered when arriving at the opinion of the control environment given to the Committee by the Chief Audit Executive.
- 1.4.4 Due to the number of audits that were carried over from 2019/20 to the beginning of this year, and the delay in approving the Plan, progress against the 2020-21 plan started slowly. Good progress has been made during the year. Of the original 21 audits (19 Assurance (A) and 2 Consultancy (C)) on the 2020/21 plan:
- Two audits were added to the Plan during the year – Budget, Savings and Income (A) and Temporary Accommodation Costs (C).
 - Four audits were cancelled and replaced by the two above – Sickness Management (A), Recruitment and Retention (A), Local Plan (A) and Housing Allocation Scheme (C)
 - Two Audits are ongoing audits and have continued into 2021/22, Business Continuity and Customer Service Review.
- 1.4.5 Of the revised total of 19 audits, 2 of which were consultancy, at the time of writing the team have completed 16 audits (both assurance and consultancy), with a further 1 audit at draft reporting stage. The final 2 pieces of work are ongoing reviews and continue into 2021/22.
- 1.4.6 Therefore, this represents 92.1% delivery of the amended Plan including Consultancy against a target of 90%. The remainder of the Plan is made up of ad hoc consultancy items, follow-up of recommendations and an allowance for the provision of advice, fraud awareness and investigations.

1.5 Assurance Work

1.5.1 A summary of the current status of audit work for 2020/21 including a summary of findings where finalised is shown in **[Annex 1]**. Definitions of Audit Opinions are provided at **[Annex 2]**.

1.5.2 Where an audit review identifies opportunities to introduce additional controls or improve compliance with existing controls, recommendations are made and agreed with client management prior to finalising the report. In line with the PSIAS, Internal Audit has arrangements in place to follow up on all recommendations agreed with management and to report to the Audit Committee on the responses received.

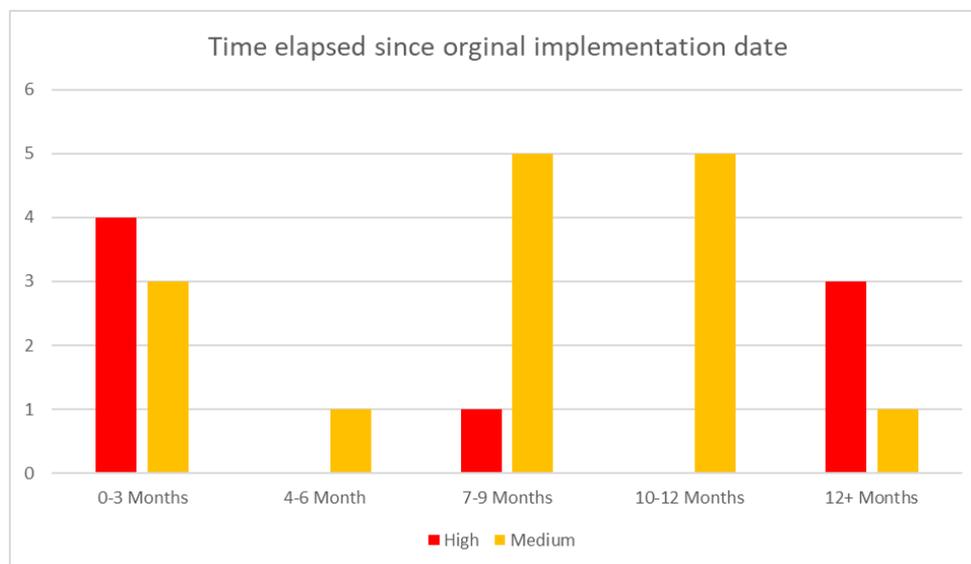
1.5.3 Eighty-Four recommendations were due for implementation in 2020/21; this excludes 'Low' priority recommendations which are considered to be good practice only and are not followed up and includes any recommendations carried forward as not fully implemented at 31 March 2020. Progress is as follows:

- 48 have been closed as implemented or superseded.
- A further 1 will potentially be closed but Internal Audit awaiting additional evidence from the service.
- 12 have not been followed up as they are to be part of full follow-up or re-audits in 2021/22 and will be reported separately.
- 23 are partially implemented, in progress and/or have agreed, revised implementation dates.

27% of recommendations due for implementation in the year remain open. This is a similar proportion to those reported last year. Of the 23 recommendations remaining partially implemented or in progress, the table below detail for which services these relate.

Audit	Medium	High
Creditors and VAT	1	
Contaminated Land		1
Information Governance		1
Public Health	1	2
IT Network Physical Access and Security	1	
Facilities Management	2	1
Empty Properties	1	1
Corporate Credit Cards	1	
Parking - Residential permits and PCN's		1
Enforcement	4	1
Land Charges	3	
Risk Management		1

In addition to the above detail, the chart below sets out the time elapsed since the original implementation date for these 23 recommendations. Recommendations over 12 months will be subject to targeted reviews during 2021/22 to establish whether significant risks remain or whether recommendation have been superseded.



- 1.5.4 Audit recommendations made from assurance work undertaken in 2020/21 demonstrate that internal audit continues to make a significant number of recommendations for change within the organisation as a contribution to improving the internal control arrangements of the Council. It is also important to recognise that the number of recommendations made does not include all system and procedural enhancements implemented during the course of audits as a direct result of the audit process or recommendations coming from consultancy work undertaken by the team.
- 1.5.5 The assurance work of the team conducted during the year has contributed to the internal control environment of the Council being maintained and improved, Council resources being more effectively used and a reduction in waste from fraud or error.

1.6 Consultancy Work

- 1.6.1 The Internal Audit team's consultancy work in 2020/21 included provision of ad hoc advice and information as and when requested by Council officers. Areas of specific consultancy / advisory work included Health and Safety (Covid-19) and Temporary Accommodation costs. Consultancy / advisory work is considered to be a fundamental service provided by the team, enabling officers to consult with Internal Audit and address control concerns and issues as they arise, helping to maintain the internal control arrangements of the Council.

1.7 Training

- 1.7.1 Training of the one Senior Internal Auditor was undertaken during the year. This totalled the planned 5 days allocated for Continuing Professional Development (CPD) as per the service KPI. The Audit and Assurance Manager completed the required 40 hours CPD to maintain their professional qualification.

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

- 1.8.1 The Quality Assurance and Improvement Programme summarises all of the measures in place to enable an evaluation of the internal audit activity's conformance with the Public Sector Internal Audit Standards (PSIAS) including the Code of Ethics.
- 1.8.2 During the year, a detailed Self-Assessment has been undertaken of the Internal Audit function and evaluated during an External Quality Assessment. No instances of non-conformance were identified. The External Quality Assessment was conducted during February to March 2021. Tonbridge and Malling Internal Audit were assessed as 'Generally Conforms' with the Public Sector Audit Standards.
- 1.8.3 An action plan has been developed where improvements or enhancements were noted. This will be presented to the Audit Committee and monitored to completion at future Committee meetings.
- 1.8.4 The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement and learning for the team. For 2020/21, the team has achieved or exceeded the target set for four of the six Internal Audit indicators measured. Actual performance of the team against these measures is provided at **[Annex 3]**.

1.9 Partnership Working

- 1.9.1 Since May 2015, the Audit and Assurance Manager (Chief Audit Executive) post has been secured by way of a shared management arrangement with Kent County Council. It must be noted, however, that according to the PSIAS it is the responsibility of Tonbridge and Malling Council to maintain an effective Internal Audit activity.
- 1.9.2 The organisational independence of the Internal Audit activity has been achieved during the year through direct interaction with the Audit Committee and the Audit Committee Chair.

1.10 Internal Audit Summary

- 1.10.1 I believe the team has provided the Council with an effective internal audit service during the year and responded well to the evolving needs of the Council. The

work of the team during the year has been appropriately managed to ensure that the limited resources of the team are used effectively and focused on the areas that will have most impact. The team have played a key role in maintaining the governance, risk and internal control arrangements of the Council whilst maintaining professional and productive relationships with clients.

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

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

Annual Counter Fraud Report 2020/21

1.11 Prevention and Detection of Fraud, Bribery and Corruption

- 1.11.1 This section of the report provides details of the Council's activity in preventing and detecting fraud, bribery and corruption in the year 2020/21.
- 1.11.2 The Council proactively takes part in the National Fraud Initiative (NFI), a biennial nationwide data matching exercise comparing computer records held by the Council against those held by other councils and other bodies. To date, we currently have 2,763 matches received within the 2018/19 biennial exercise and to date 1,900 have been closed with no further action, 160 have been closed with errors found and 1 has been closed as Fraud. The remaining matches unopened are linked to the Covid-19 Business Grant applications which are uploaded to NFI as part of our pre-payment checks; the matches that are marked as low risk have not been looked at. We have received a further 767 matches from the 2021 biennial matching process. These have not been actioned as yet.
- 1.11.3 Annual data matching is also undertaken through NFI between the Electoral Register and Council Tax Single Person Discount data; the most recent results were received in December 2020. There were 886 matches received, 374 have been closed with no further action required and 140 have been closed as errors resulting in underpayments totalling £51,382. This is money owed to the Council. Of the remaining matches, 78 are subject to further enquiries and 294 have yet to be reviewed.
- 1.11.4 An additional data matching exercise, known as supplementary, using Council Tax Single Person Discount data to a myriad of other data sets held, resulted in 1,739 matches in 2020. To date 1731 have been closed with no further action required and the remaining 8 matches have been closed as errors resulting in underpayments totalling £4,201.92

1.11.5 We also received a Council Tax to HMRC Household composition match in August 2019. There were 2,482 matches received of which 1,010 have been closed with no further action required, 14 have been closed with errors identified resulting in underpayments of £6,676.72, 3 are subject to further enquiries along with 1,455 yet to be reviewed.

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

SPD To Electoral Register	2019 Biennial	Council Tax to HMRC Household Composition	2020 SPD	2021 SPD	2021 Council Tax to Other Datasets	2021 Biennial	Total
Total Matches	2763	2482	907	886	1498	767	9303
Closed NFA	1900	1010	836	374	0	2	4122
Closed Error	160	14	32	140	0	0	346
Closed Fraud	1	0	0	0	0	0	1
Further Enquiries	7	3	5	78	0	0	93
To Open	695	1455	34	294	1498	765	4741

1.11.7 The Kent Intelligence Network (KIN), a government funded partnership led by Kent County Council, has been in place since September 2016. The partnership's key aim is to prevent and detect fraud, reduce partner's fraud risk profiles and support development of fraud professionals in Kent. It delivers a data matching function across Kent designed to address key fraud risks identified by the partners allowing a more bespoke approach and broader scope than the NFI.

1.11.8 The key focus area for 2020/21 has looked at fraud and error within Single Person Discounts, Small Business Rate Relief and unrated business premises. For Single Person Discount activity, there has been an additional £31,757 in additional Council Tax liability being identified and £45,615 in future increased annual liability through the removal of Single Person Discounts.

1.11.9 In 2018, Kent Finance Officer Group (KFOG) agreed to fund the procurement of a software solution that focuses on data matching businesses in receipt of Small Business Rates Relief (SBRR) nationally, the cost contribution from Tonbridge and Malling was £1,000. Data matches received through this route have been reviewed. The total income due as a result for 2020/21 was £66,756 with increased annual liability of £20,983.

1.11.10 We have also identified through the KIN activity unrated business rates properties, this has seen an additional £5,901 in business rates being identified, increasing business rates income.

1.11.11 In addition to business rates, we have also identified through the KIN activity unrated council tax properties, usually annexes, which has seen an additional £7,915 in council tax being levied.

1.11.12 At its May 2020 meeting, KFOG agreed to fund the software for a further year and the software providers are now working in partnership with the KIN, this partnership has had a successful year having been shortlisted for the 2020 Public Finance Awards in the Solutions Partner category and winning the award for Best Initiative in Combatting Fraud at the ALARM Risk Awards.

1.11.13 We continue to review areas of fraud risk and direct our work accordingly. In 2020/21, this has included:

- The progression of Service specific fraud, bribery and corruption risk assessments, briefings have been provided to each service management team along with a draft risk assessment for them to review and complete. These are now being reviewed against service risk registers by the Fraud Officer.
- Fraud awareness training currently being updated whilst we were unable to conduct awareness sessions due to Covid-19 to aim to deliver to services as well as to any new starters so they are 'fraud aware'.
- An authority wide fraud awareness week that aligned with international fraud awareness week in November.
- The planned blue badge enforcement day in March 2020 has had to be deferred due to Covid-19 and will be included in the 2021/22 Fraud Plan.

1.2. Small Business, Retail, Hospitality and Leisure Grants and other Business Grants.

1.2.1. In response to Covid-19, the government announced there would be support for small businesses, and businesses in the retail, hospitality and leisure sectors.

1.2.2. To date, 1,617 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 1,617, issues were found with 21. Of the 21, 7 required no further action, 10 were fraud prevented, 2 were incorrect benefit, and the remaining 2 are currently the subject of ongoing investigation.

1.2.3. With involvement with Small Business Rate Relief as well as working with the Business Rates team to spot fraud and error within the Covid-19 Business Grant

applications has resulted in £21,994.81 being identified as error, as well as a £10,000 Covid-19 grant prevented from being paid out in error.

1.3 Investigating Fraud, Bribery and Corruption

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

1.3.2 In 2020/21, the Counter Fraud Team have closed 111 cases. A total of 211 referrals were received, 87 of which relate to NFI. There are currently 18 ongoing investigations. The total amount of income due as a result of investigations concluded in 2020/21 was £59,404.52; with £10,000 prevented from being paid out in error, with increased annual liability of £22,444.06. Civil penalties (net) in the amount of £1,400 were also applied. **[Annex 4]** summarises the results of investigations concluded in 2020/21.

1.4 Counter Fraud Resources

1.4.1 The 2020/21 resource dedicated to Counter Fraud is 0.2 FTE management support provided under a secondment agreement with KCC, 1 FTE Fraud Officer, 0.8 Fraud and Audit Assistant (vacant since October 2020) and 0.8 FTE Intelligence Assistant.

1.5 Legal Implications

1.5.1 The Accounts and Audit Regulations place a statutory requirement on local authorities to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practice is defined as that contained within the Public Sector Internal Audit Standards (PSIAS) and CIPFA's Local Government Application Note to the PSIAS.

1.5.2 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.

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

1.6 Financial and Value for Money Considerations

1.6.1 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.

- 1.6.2 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.

1.7 Risk Assessment

- 1.7.1 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.
- 1.7.2 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

Audit Review Title	Status	Audit Opinion	Scope of Audit and Findings
Training	Complete	Adequate	<p>This audit was undertaken as part of the agreed 2020/2021 Audit Plan. The overall objective of the audit was to provide assurance that the Council has adequate training and development processes in place to equip the workforce with the necessary skills to fulfil the objectives of the Corporate and HR Strategy.</p> <p>The Corporate Training and Development Policy was found to have not been reviewed since 2016. Since then, the Corporate Strategy has been revised meaning that the Training and Development Policy is no longer aligned with Corporate Objectives. The training budget covering recent years appears to be sufficient, and in line with the Development and Training policy, however as the policy is out of date, it is possible that the training and development budget may not be sufficient to deliver training needs arising from revised Corporate objectives.</p> <p>Procedures around the application for training are not in accordance with requirements of the organisation with numerous instances being evident of training courses being applied for without the standard application forms being completed meaning that Chief Officer approval is also not obtain in accordance with organisational requirements. Although, Review of training records for the sample of external training courses tested was able to establish that all of the training provided was directly related to the job role of the individual undertaking the training.</p> <p>No documentation was provided to the HR Manager by staff to confirm that the training being paid for by the Council has been completed by the member of staff concerned for any of our sample. For the sample tested, where a training agreement is considered suitable, one is in place and has been properly approved. Testing identified that one Officer had since left the Council, and fees were recovered in line with the training agreement. While the amount of training delivered is reported to Senior Management the benefits and arising from the training delivered is not covered in detail.</p> <p>Recommendations:</p> <p>Update and approve Training and Development policy – Medium</p> <p>Ensure the training management system and agree procedures are used for training applications – Medium</p> <p>Ensure evidence of course completion is obtained - High</p>

Community Safety	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>Recommendations: Annual service plan and KPI's developed – High Develop anti-social behaviour policy – Medium Develop and publish service standard and procedures for dealing with anti-social behaviour (asb) complaints – Medium Improve management review of asb complaints database</p>
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<p style="text-align: center;">Health and Safety</p>	<p style="text-align: center;">Part 1: Complete</p> <p style="text-align: center;">Part 2: Complete</p>	<p style="text-align: center;">High</p>	<p>Part 1: Testing has established that the Council has taken suitable measures to ensure the safety of staff working in the Gibson building on office duties, or working across the Borough on visits and inspections. Suitably detailed risk assessments are in place for all services.</p> <p>Review of the staff signing in and out register established that of the total number of attendees to the offices, only a small number of these remained at the offices all day, indicating that staff are complying with the corporate guidance to only attend the offices if absolutely necessary.</p> <p>Testing established that PPE and hand sanitiser is readily available to staff as required. Sufficient hand sanitiser stations are in place around the building and in corridors. Similarly, cleaning stations are well positioned and signposted in offices.</p> <p>Physical measures in place to protect staff that do attend the building were found to be appropriate for current daily occupancy rates. No significant points for concern were identified during a recent visit to the building, although management should remain mindful that as staff return to the building, other measures may need to be considered such as reducing the number of desks available for use in larger offices. Also, maximum occupancy rates for meeting rooms should be introduced. Suitable measures such as floor markings and plastic screens have been put in place in the main reception area to protect visitors and staff.</p> <p>As part of the process for working at home rather than in offices, staff have been required to complete Home workstation Assessments. Suitable processes are in place to record completed assessments and ensure that all officers working from home have completed an assessment.</p> <p>Part 2: Internal Audit have established that the Council has taken suitable measures to ensure the safety of staff working in the Gibson building on office duties or working across the Borough on visits and inspections. Suitably detailed risk assessments are in place for all services where staff are working on visits and inspections and sufficient PPE is available as and when required by officers.</p> <p>As part of the process for working at home rather than in offices, staff have been required to complete Home workstation Assessments. Suitable processes are in place to record completed assessments and ensure that all officers working from home have completed an assessment.</p>
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<p>Customer Services Review</p>	<p>Planning (To continue into 2021/22)</p>		

<p style="text-align: center;">S106 – Developer Contributions</p>	<p style="text-align: center;">Draft Report</p>	<p style="text-align: center;">Substantial</p>	<p>The Council has in place a recently approved S106 Protocol which is available to view on the Councils website. There is a suitably approved S106 Protocol in place and publicly available detailing procedures around S106 agreements and when contributions will be required.</p> <p>All relevant stakeholders are given the opportunity to review planning applications where S106 contributions may be required. All S106 contributions which are requested are supported by a calculation explaining the rationale behind the amount of contribution being requested.</p> <p>In conjunction with TMBC IT staff, a new S106 database has been developed. That database has facility to record all information relevant to S106 agreements and their respective contributions. Information in the database is both accurate and complete. A procedure note is in place and available to officers covering the S106 process, however these were developed prior to the implementation of the new S106 database, homeworking and also the introduction of a S106 Monitoring Officer and therefore require review and updating.</p> <p>There is a documented sign off process for the release of S106 funds to be used by Council departments. S106 funding is only released internally after review and approval of a business case to support the use of S106 contributions requested.</p> <p>Updates on S106 activity have been reported to Senior Management and Elected Members at suitable intervals. Similarly, testing established that the Council has produced and published its Infrastructure Funding Statement in accordance with relevant legislative requirements.</p> <p>Recommendations: Update s106 Procedure notes - Medium Requirement for a s106 Monitoring Officer – Medium Requesting funds from developers at trigger points - Medium</p>
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<p style="text-align: center;">Waste Contract</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Limited</p>	<p>Income to the Council from the garden waste subscription scheme is significant (second only to income from parking), it is therefore important that all income is collected as soon as practical and that subscriptions not renewed result in cessation of the service as soon as practical so that future income is maintained.</p> <p>Until the changes are made in the back-office systems, collections provided to individual households remain unchanged and the Council continues to be charged by the contractor for the collections. At the time of the audit, a number of changes or updates to accounts were outstanding as the Administration Manager has had insufficient time to be able to make all of the necessary changes. Once current work to upgrade the interface process is complete, changes to accounts and subscriptions will be an automated process. The current lack of resources is a significant factor in collections currently continuing at around 2,000 households which, as at the time of the audit, had failed to renew their subscriptions which were due in December 2020.</p> <p>No cut-off date has been applied for unpaid garden waste subscriptions. This mainly relates to subscriptions which should have been renewed in December 2020, but at the time of the audit was also starting to apply to unpaid January subscriptions. This means that around 2,000 households are continuing to receive garden waste collections as normal, and the Council is incurring a cost of around £400 per week for undertaking those collections. It also means that there are invoices showing in Integra as unpaid. Those invoices will need to be cancelled when the collections for unpaid subscriptions are stopped. Once that happens, the Council will be required to collect the then unused bins.</p> <p>Direct debit is acknowledged to be the most efficient method of collection for ongoing subscriptions. The Council does not currently offer direct debit for garden waste subscriptions. Discussions with officers established that work on direct debits is still in its infancy despite needing to be in place by late summer so that the process can be tested in advance of the main renewal process in December.</p> <p>Recommendations:</p> <p>Ensure that sufficient administrative support is provided – High Determine policy/guidance for unpaid garden waste renewals – Medium Set a 'cut off' date for unpaid subscriptions – High Ensure direct debits are available for payment for garden waste - Low</p>
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Business Continuity	Planning (Due to continue into 2021/22)		
Tree Strategy	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>Recommendations:</p> <ul style="list-style-type: none"> Update policy to define prioritisation categories and timescales for work – Medium Develop one monitoring spreadsheet for all inspections – Medium Arrange potential missed priority inspection – Medium Schedule inspections for differing times of the year – Medium Retain evidence of complete tree works – High Record all inspections carried out due to adverse weather – Medium Completion of basic tree survey and inspection training – Medium Budget setting - Low

<p style="text-align: center;">IT Governance</p>	<p style="text-align: center;">Draft Report</p>	<p style="text-align: center;">Substantial</p>	<p>The IT Strategy was revised in January 2021 and a decision was made to roll it on one year to 2023 to align to the Digital Strategy which supports it. Both strategies timescales now also align to underpin to the Corporate Strategy and reflects the Savings and Transformation Strategy timescales. The Innovation priority within the Corporate Strategy signposts to the Digital Strategy which is fundamental to introducing new technologies and transformation to become a “smart borough”, which is one of the key outcomes. Review of the IT Strategy identified examples where IT projects can assist with the delivery of the strategy.</p> <p>Mapping workshops were undertaken last year for all business processes except for waste, six sigma methodology has been adopted for the reviews. Flowcharts documenting the processes and accompanying explanatory notes and solutions and suggestions were subsequently produced, including potential efficiencies. Following the reviews, a Digital Project Evaluation (DPE) is produced which includes documenting costs, investment, revenue impact, measures of success and efficiency savings. Recommendations are also made for MT consideration. Once the process work-flow re-mapping and DPE has been complete, it is the Service’s responsibility to monitor progress and capture the actual efficiencies. There is no governance in place or reporting arrangements for the progress on the projects to ensure actual efficiencies are quantified and delivered.</p> <p>Review of the IT Service Plan identified most projects had been completed within the expected timescales. For projects that were not yet finalised a brief update on the progress was given. For projects that are “ongoing” no progress on the current position were stated. However, for larger projects, project plans are in place and review of Financial Service Management Team (FSMT) minutes identified progress is reported weekly.</p> <p>Progress on the achievement of strategy objectives is monitored through the digital default meetings. The Director of Finance and Transformation took a IT Service Plan and Digital update paper to MT in September 2020. It included the evaluations of three digital projects for MT consideration. In addition, the Head of IT presented a Digital Strategy Update paper to Finance, Innovation and Property Advisory Board in July 2020 and is currently drafting another to take to the next meeting in July 2021.</p> <p>Recommendation: Schedule process and workflow reviews – Medium Reporting on efficiencies made - High</p>
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<p>Council Tax Reduction Scheme</p>	<p>Complete</p>	<p>High</p>	<p>The CTRS policy was found to have been suitably approved prior to the start of the year. Policies and eligibility criteria for CTRS were also found to be readily available to members of the public via the Councils' website.</p> <p>Suitable arrangements are in place to ensure that officers responsible for the assessment of claims for CTRS have been suitably trained to do so and are also kept up to date with changes to the scheme such as eligibility criteria or income thresholds.</p> <p>CTRS thresholds and parameters within the Northgate system are aligned with the CTRS policy as approved at the start of the year by Full Council.</p> <p>Testing of a sample of 15 applications made under the Exceptional Hardship Relief Policy identified errors in the calculations of 2 claims. One error resulted in the incorrect awarding of £550. Neither of the claims had been subject to an internal review by a second officer in accordance with the internal procedures for the consideration of applications under the Exceptional Hardship policy. One further claim was found to have been granted an award despite other claims with a lower weekly excess income being declined. Four claims were found to have been correctly dismissed due to the claimant not providing sufficient information or not having CTRS in payment at the time of the application. Of the 11 remaining claims where an assessment of income and expenditure was undertaken, only 3 were found to have been subject to review by another officer despite internal procedures stipulating that calculations should be subject to review.</p> <p>Recommendations: Secondary review for all exceptional hardship relief awards</p>
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<p>Citizen Access System</p>	<p>Complete</p>	<p>Substantial</p>	<p>The Citizen Access system allows Council Tax account holders to access their account via an online portal to view bills and make various changes to their account. This is intended to make the application process both easier and faster for the claimant, and at the same time generate efficiencies.</p> <p>The online Benefit application form is currently not working, and therefore not available to Housing Benefit applicants wishing to submit an application or inform the Council of changes in their circumstances. This means that, although there is evidence that there is a positive return on investment, the Council is unable to capitalise fully on the potential benefits which the system can deliver.</p> <p>The Council entered into a two-year contract with the software provider in March 2018 meaning that the current contract has expired.</p> <p>Officers have taken suitable measures to move Council Tax customers away from paper billing, and manual changes via the telephone or person to person contact, over onto the digital platform. This is resulting in a steady increase in take-up and use of the system which is in turn delivering efficiency savings which the Council is starting to benefit from.</p> <p>The system is accurately applying changes to customer accounts. Similarly, the system is also recognising the errors so manual adjustments can be applied.</p> <p>Recommendations:</p> <p>Renew contract (or procure new contract) with supplier – Medium</p> <p>Test and implement the online Housing Benefit form - Medium</p>
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<p>Housing Benefit Claims</p>	<p>Complete</p>	<p>Substantial</p>	<p>The majority of the expected controls necessary for the accurate and timely assessment of claims were found to be in place, and working as expected. For the sample of claims received since the start of the Covid-19 the following controls were in place.</p> <ul style="list-style-type: none"> • The necessary evidence was held on file to identify the claimant and other persons on the claim. • All income calculations were correct and based on evidence held on the claim. • Housing Benefit claims all had evidence of the rent liability for the claimant. • Bank statements were held on file. Assessments of Capital held by the claimant were correct. • Claim start dates were correct. <p>Testing did however identify that only 2 from 15 claims tested had been date stamped to confirm the date of receipt of the claim form. Not date stamping claim forms may result in incorrect start dates being applied to claims making the claim incorrect.</p> <p>Recommendations: Claim applications are dated on receipt to ensure accuracy of calculation - Medium</p>
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<p>General Ledger</p>	<p>Complete</p>	<p>Substantial</p>	<p>There is a dedicated webpage for Integra on Staff-net which includes several written guides and useful video guides which are available to all staff. Following Integra access requests, authorisation limits are checked and set up in accordance with the authorised signatory list held within Exchequer. Personal data such as salary information cannot be accessed via Integra and all account activity is transparent. High-level review of the User Security Report detailing the levels of access assigned to each user confirmed access appears to be reasonable based on user job descriptions.</p> <p>A database has been configured which automatically uploads the IT staff directory into Integra daily to identify any changes required to Integra user access. Review of a January report highlighted three employees who were active Integra users but were no longer appearing on the active directory. A comparison against the leaver's dates confirmed that they had all left within the last six weeks. Internal Audit were unable to verify when they first appeared on the alert report, this would be dependent on IT updating the directory. However, we were able to confirm that all three employees were not showing on the user security report run on 25th January and that there are sufficient built-in controls to detect changes to user access.</p> <p>Creation of new cost centres and accounts are restricted to the Accountants. New job cost code requests are often made informally and are not restricted to Budget Holders, as usually. However, no recommendation is being raised as all transactions are approved by the Budget Holder prior to being posted into the accounts. Analysis of a report established around 280 GL codes that were either newly created or had been re-used since January 2020. We were advised that the Accountants perform an exercise at year-end to review GL code account activity with a view to deactivating account's surplus to requirements. Review of the year-end trial balance and discussions with the Financial Services Manager confirmed control and suspense accounts are monitored by assigned Accountants.</p> <p>Testing of a sample of journals confirmed all had supporting documentation retained on the shared drive, as well as e-mail's from the requester where relevant. Review of a report listing all journals confirmed all had been input by a member of the Account's team and had a sequential reference number. However, supporting documentation is not uploaded onto Integra which has the capability to do so, and further efficiency opportunities were identified.</p> <p>We evidenced that the salaries, purchase ledger and cash management</p>
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			<p>reconciliation are completed monthly to confirm that the postings into the general ledger were accurate. However, the sales ledger reconciliation had not been done since April 2020.</p> <p>Recommendations:</p> <p>Increased monitoring of GL code activity – Low</p> <p>Improve journal transfer documentation – Low</p> <p>Develop procedure notes for feeder systems – Medium</p> <p>Reconciliation of feeder systems – Medium</p>
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<p>Corporate Credit Cards</p>	<p>Complete</p>	<p>Substantial</p>	<p>A suitably approved set of guidance notes is in place and available to give card holders details on when cards can be used and subsequently the measures required to make purchases using Corporate Credit Cards. Internal Audit were also able to confirm that that all Credit Card holders within our sample have signed a declaration to confirm that they understand the guidance notes, and expectations placed upon them when using their Corporate Credit card.</p> <p>There suitable documentation is in place to evidence that approval has been granted by the relevant Corporate Director for officers to be issued with a Corporate Credit Card. Similarly, all approved transaction limits have been correctly notified to the card issuer.</p> <p>Credit Card Guidance notes require the card user to obtain approval for all expenditure in advance of entering into the purchase. Where that is not possible due to emergency expenditure, the card holder is required to obtain approval the next working day. Sample testing of 30 different card transactions established 10 instances where non-emergency related transactions had not been approved before the purchase was made. One transaction was identified where the credit card purchase form had not been approved.</p> <p>Officers provided receipts to support the purchase, similarly, where VAT is being incurred, a suitably detailed VAT receipt is being obtained.</p> <p>Card and transaction limits are kept under review by Senior Finance officers and currently considered to be set at appropriate levels for each card holder. Expenditure on credit cards is being suitably coded to appropriate expenditure codes. Expenditure on credit cards is also being accurately reported in accordance with relevant transparency legislation.</p> <p>Recommendations:</p> <p>Obtain approval for purchases before ordering goods – Medium</p> <p>Provide receipts to support purchases - Medium</p>
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<p>Parking</p>	<p>Complete</p>	<p>Adequate</p>	<p>There is sufficient information available for both residential permits and Penalty Charge Notices (PCN's). Imperial, the system supplier, provided two days training prior to "go live" of the systems, followed by the issue of a frequently asked questions (FAQ). There is no specific guidance or procedures for the Permit Smarti system.</p> <p>The team are mindful of GDPR when speaking to residents on the phone. We were advised unless the account details match information is not divulged. Access to both systems is adequately restricted.</p> <p>Documentation uploaded onto Permit Smarti by applicants was not regularly checked prior to the resident permit becoming valid. A report was ran and established of 1527 permits that had been generated without the documentation being verified. In addition, testing of a sample of permits granted between Dec 2019 and Sept 2020 identified further issues with checking if sufficient documentation had been uploaded prior to the permit being granted.</p> <p>Details of how to request a refund are documented on the Councils website. We were unable to test whether refunds were applied appropriately as there was no easy way to identify those who had received a refund part way through the year, however the process for issuing refunds appears sufficient.</p> <p>We were advised that the CEO's have hold professional parking qualifications and have also undertaken conflict management training. We were unable to verify this as Personnel did not provide the evidence requested, therefore we are unable to provide assurance that CEO's are suitably trained.</p> <p>When the new system was implemented an email was sent to residents notifying them. Due to a high number of emails that 'bounced' a management decision was made to waiver any PCN's that were a result of an out-of-date permit for the year preceding the system implementation date, providing a permit was swiftly sought. A batch of reminders were sent out in July as reminders when permits were due for renewal. We were advised the team have recently devised a spreadsheet to monitor renewal dates and have scheduled a review every two weeks when reminders will be issued.</p> <p>Recommendations: Develop procedure note for Smarti systems – Low Run regular reports to identify documents awaiting approval before issue -High Monitor progression codes requiring intervention - Low</p>
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Risk Management	Draft Report	TBC	<p>The majority of recommendation have now been implemented, with a revised implementation date agreed for the development of service fraud, bribery and corruption risk registers. This recommendation will now be followed-up as part of Internal Audit's usual follow-up process.</p> <p>Responses to Risk Management questions by lead officers for all audits undertaken in 2020/21 were collated with a view to identifying themes and areas of improvement. From the responses received, responsibility for risk was understood and there was awareness of the need to escalate risks to the Management Team where necessary. However, an emerging theme was that Officers would benefit from Risk Management Training</p> <p>Recommendations: Development of service fraud, bribery and corruption risk registers – High Training for officers on risk management - Medium</p>
Performance Management	Quality Assurance	TBC	

<p style="text-align: center;">Temporary Accommodation</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 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.</p>
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<p style="text-align: center;">Budget Monitoring, Savings and Income</p>	<p style="text-align: center;">Complete</p>	<p style="text-align: center;">Substantial</p>	<p>Analysis of the claims the Council have submitted in relation to the government income compensation scheme for the loss of sales, fees, and charges as a result of COVID-19 confirmed that all eligible losses, that meet the set criteria are being claimed for.</p> <p>Review of reports to the Finance, Innovation, and Property Advisory Board (FIPAB) and to Cabinet evidenced robust timely reporting of the Councils current financial position, with the scale of the financial challenge emphasised and sufficient detail provided for Members to make informed decisions. Modelling for three scenarios on the impact of COVID-19 was provided to Members, with the mid-range scenario (slower recovery) used for the financial projections, which was sufficient based on the position at the time.</p> <p>£500k savings have been built into the MTFS with the assumption that identified initiatives agreed by Members in principle, but still to be delivered, are achieved. Various reports to Members included a reminder of these initiatives, with a caveat that if they cannot be achieved something else will need to take its place. The point has been reiterated throughout the reports in bold to further emphasise the importance of delivering the savings within the anticipated timescale. Discussions during the audit highlighted concerns with the ability to achieve some of the identified savings.</p> <p>The revised savings and transformation strategy was presented to Cabinet in February 2021 which supports the Medium-Term Financial Strategy (MTFS). A further circa £475k savings are required to bridge the projected funding gap. This has been split across broad headings, however, at the time of the audit no detailed list has been identified as to exactly what initiatives may deliver the savings.</p> <p>Recommendations: Provide members with update on the status of savings - Medium Identify savings for projected funding gap - Medium</p>
<p style="text-align: center;">Sickness Management</p>	<p style="text-align: center;">Postponed to 2021/22</p>		
<p style="text-align: center;">Recruitment and Retention</p>	<p style="text-align: center;">Postponed to 2021/22</p>		

Local Plan	Postponed to 2021/22		
Housing Allocation Scheme	Postponed to 2021/22		(Project yet to start)

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Definitions of Audit Opinions

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

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Internal Audit and Fraud Key Performance Indicators 2020/21

KPI	Target	Performance
Customer		
Client satisfaction surveys (Fraud) - % positive responses	90%	n/a Due to the pandemic no workshops have been undertaken in 2020/21
Client satisfaction surveys (Audit) - % positive responses	90%	98%
Internal Process and Quality		
Outcome of annual self-assessment/EQA - Compliance with Public Sector Internal Audit Standards		Assessed from the External Quality Assessment as 'Generally Compliant'
Audit Plan completion - % completion	90%	92.1%
NFI Progress - % processed against target	90%	N/A only received new matches recently
Time from end of fieldwork to Draft Report – % within 10 working days	85%	67%
Time from referral to conclusion of investigation - % completed within 12 weeks	85%	67% Delays with investigations were due to Covid-19. Benefit cases remained open as DWP's resources were delegated elsewhere (average to close 13.9)
Learning and innovation		
Days training received – no of days per staff member	5	5.5 ave per staff member
Days training provided – no of days delivered against planned days	75%	n/a No sessions conducted due to Covid19 and other demands on service
Maintenance of Continual Professional Development for relevant staff	100%	100%
Implementation of improvement actions from Quality Assessments - % completed in line with agreed implementation date	90%	n/a – Improvement plan resulting from the External Quality Assessment has yet to be presented to Audit Committee
Organisational		
% Recommendations implemented by original date	80%	35%
% of open recommendations overdue	10%	66%
Time from issue of Draft Report to completion of Action Plan – % within 10 working days	85%	27%

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Fraud 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					£339	£22,930	£17,608	20	£1,400
CTRS	4	2	2					£52	£4,479	£2,710		
HB	13	13										
NNDR	2	1	1					£41	£31,995*	£2,126		
Parking												
Housing	3	2				1						
Other	8	6	1				1					
	111	71	38			1	1	£432	£59,404	£22,444	20	£1,400.

*£10,000 of the £31,994.81 was a Covid-19 Grant that was prevented from being paid out in error.

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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 GRANT THORNTON AUDIT PROGRESS REPORT AND SECTOR UPDATE

A progress report and update on emerging national issues and developments that may be relevant to you as a local authority from our external auditor, Grant Thornton.

1.1 Introduction

1.1.1 Attached at **[Annex 1]** is a progress report and sector update from Grant Thornton covering information on a number of areas:

- Progress in delivering our responsibilities as your external auditor.
- The new approach to Value for Money.
- Revised auditing standard: Auditing Accounting Estimates and Related Disclosures.
- Insight into accounting for grants in local government financial statements.
- What can be learned from Public Interest Reports?
- Consultation on 2023-24 audit appointments.

1.2 Legal Implications

1.2.1 As set out in the paper.

1.3 Financial and Value for Money Considerations

1.3.1 As set out in the paper

1.4 Risk Assessment

1.4.1 As set out in the paper.

Background papers:

contact: Paul Worden

Nil

Sharon Shelton
Director of Finance and Transformation

Tonbridge and Malling Borough Council Audit Progress Report and Sector Update

Year ending 31 March 2021

July 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:



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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; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 either your Engagement Lead or Engagement Manager.

Progress at July 2021

Financial Statements Audit 2020/21

We undertook our initial planning for the 2020/21 audit in February 2021. We began our work on your draft financial statements and audit fieldwork in July.

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

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31 August. The date by which authorities are required to publish audited financial statements is 30 September. In 2020 this date was pushed back to 30 November.

We will report our work in the Audit Findings Report and aim to give our opinion on the financial statements by September 2021.

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 is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Please see page 10 for further details.

Progress at July 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 2020/21 claim is due to begin in October.

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Borough Council's strategic priorities and plans.

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 Borough Council 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. The estimated fee for Tonbridge and Malling Borough Council is £58,248 (£57,160 2019/20).

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 are currently reviewing our proposed audit fee for 2019/20 and discussing the revised 2020/21 fee with your s151 Officer.

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

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p data-bbox="120 408 264 437">Audit Plan</p> <p data-bbox="120 456 1346 555">We are required to issue a detailed audit plan to the Audit and Governance 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 data-bbox="120 584 416 612">Audit Findings Report</p> <p data-bbox="120 632 1122 660">The Audit Findings Report will be reported to the September Audit Committee.</p>	September 2021	Not yet due
<p data-bbox="120 695 338 724">Auditors Report</p> <p data-bbox="120 743 734 772">This is the opinion on your financial statements.</p>	September 2021	Not yet due
<p data-bbox="120 815 450 844">Auditor's Annual Report</p> <p data-bbox="120 863 1155 892">This Report communicates the key issues arising from our Value for Money work.</p>	September 2021	Not yet due

Results of Audit Work to date

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. This includes all significant risk areas identified in our audit plan</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p>	Our work has not identified any weaknesses which impact on our audit approach.

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:

Public Sector

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 - the 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).

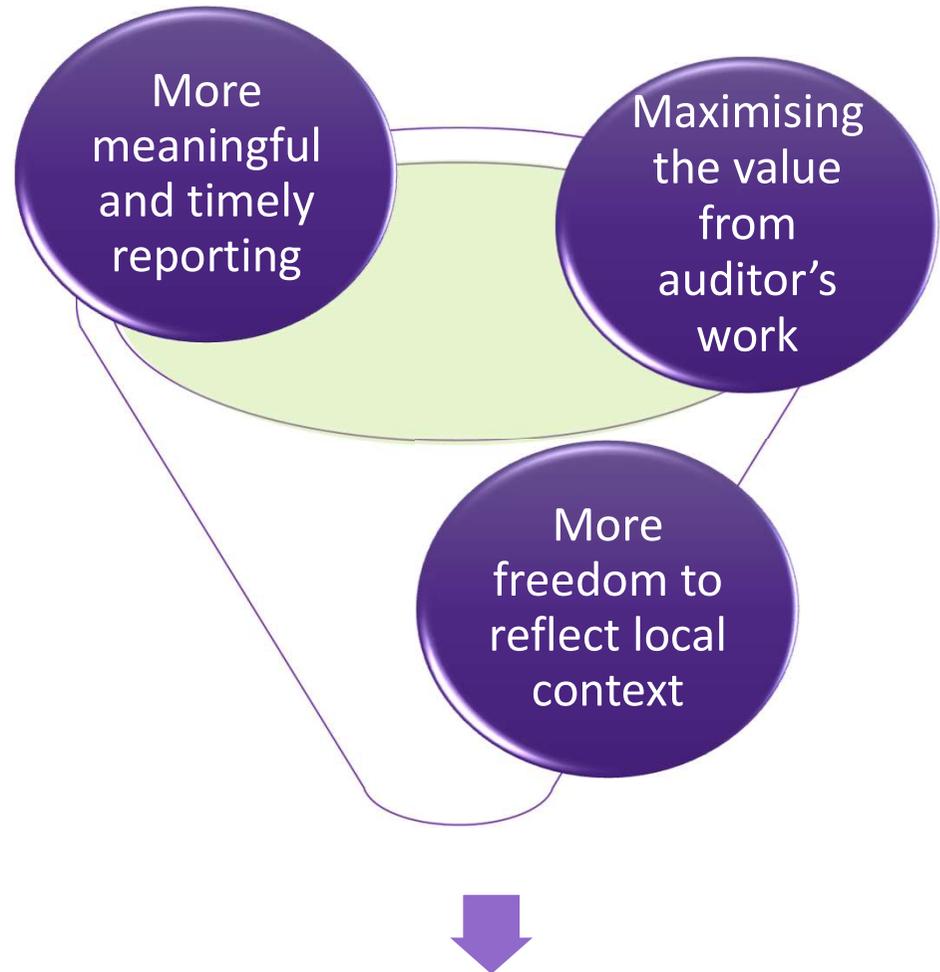
The new approach to Value for Money

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.

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VFM arrangements commentary and recommendations

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 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 Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 financial instruments

The Authority's Information systems

In respect of the Authority'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 Authority 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 Authority (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 (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 addresses 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 include:

- 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 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). 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)

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.

Page 217
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 your audit manager for the full report:



What can be learned from Public Interest Reports? – Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report “Lessons from recent Public Interest Reports” explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

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 PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) 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. Local authorities have a variety of different governance models. These 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 local authorities, it's 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) Local authority leadership.

The full report is available here:

[Lessons from recent Public Interest Reports | Grant Thornton](#)

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

Page 219

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.



The full report is available here:

[Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.”

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA’s proposals closes on 8 July.



The news article can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/>



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TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 CONSULTATION ON THE DRAFT PROSPECTUS FOR THE NATIONAL SCHEME FOR LOCAL AUDITOR APPOINTMENTS FROM APRIL 2023

Public Sector Audit Appointments Limited (PSAA) have prepared a draft prospectus for the national scheme for local auditor appointments from April 2023. Feedback concerning PSAA proposed way forward is by way of a consultation which seeks responses to a set of questions.

1.1 Introduction

1.1.1 From 2018/19, 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 In relation to appointing auditors principal local government authorities can arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

1.1.4 The Borough Council, as did most councils, opted into PSAA national auditor appointment arrangements covering the five-year period 2018/19 to 2022/23. In the coming months councils will have to consider and make decisions about their external audit arrangements for the period commencing 2023/24.

1.2 Draft Prospectus for the National Scheme for Local Auditor Appointments from April 2023

1.2.1 PSAA have prepared a draft prospectus for the national scheme for local auditor appointments from April 2023 **[Annex 1]** and invites views and comments in relation to the aims of the scheme and how it needs to develop going forward.

Ahead of finalising the procurement strategy and issuing formal invitations to opt into the national scheme later this year.

- 1.2.2 Feedback concerning PSAA proposed way forward is by way of a consultation which seeks responses to a set of questions. The consultation and the responses to the questions asked can be found at **[Annex 2]**.
- 1.2.3 The return date for responses to the consultation was 8 July 2021 and due to the timing of meetings the responses were agreed with the (then) Chairman and Cabinet Member for Finance, Innovation and Property prior to submission.
- 1.2.4 The national scheme should seek to secure a competitive fee structure, high quality audits, timeliness of audit opinion delivery and encourage market sustainability. The Prospectus setting out PSAA approach to meeting these aims going forward.

1.3 Legal Implications

- 1.3.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in to a sector-led scheme must be made by full Council.

1.4 Financial and Value for Money Considerations

- 1.4.1 Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.
- 1.4.2 A national Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit; and would remove the costs of establishing and maintaining an auditor panel. As such, and in the current challenging market conditions, continues to be seen as the preferred option.

1.5 Risk Assessment

- 1.5.1 Providing an early indication of our likely way forward will enable PSAA to invest in developing appropriate arrangements going forward.

1.6 Policy Considerations

1.6.1 Procurement

Background papers:

Nil

contact: Neil Lawley
Paul Worden

Sharon Shelton
Director of Finance and Transformation

DRAFT PROSPECTUS

Your chance to help us shape the national scheme for local auditor appointments from April 2023

All eligible bodies

June 2021

www.psa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

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Context: changes in the audit market

During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

In relation to appointing auditors local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

This draft prospectus provides an introduction to the PSAA national scheme, and discusses and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Through this process we want to give you the opportunity to help us shape some of the important features of the scheme ahead of issuing formal invitations to opt in to all eligible bodies in the Autumn.

However, before we look forward, we need to look back. In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, we did not know at the time that this was the calm before the storm.

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession we have then had the results of four independent reviews commissioned by Government:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now in various stages of consideration by Government with the clear implication that a series of significant reforms will follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place to respond to a more focused regulator, determined to achieve change, were clearly visible. In order to deliver the necessary improvements in audit quality firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It is deep-seated and has a range of causes. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure and of a local audit system which is experiencing its share of the strain and unavoidable instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this draft prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

In our view the audit market will continue to be relatively unstable and difficult to predict for a further period of time as the Government continues to develop and implement its policy response to the four independent reviews - Kingman, CMA, Brydon, and

Redmond; as further regulatory pressure is applied; and as firms respond and adapt. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that bodies which opt into PSAA's national scheme will be in a better position than those which choose to make their own separate arrangements. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

The national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;
- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

However, the challenge for 2023 and beyond is to develop the scheme further, by listening to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience. This work is already firmly underway. During the past three years we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- proactively and constructively engaging with the numerous high-profile industry reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- commissioning an independent review undertaken by Cardiff Business School of the design and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- the establishment of a Local Audit Quality Forum, which is free of charge to opted-in bodies and has to date held five well attended events on relevant topics;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

Importantly, we are also currently working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, and the LGA to help identify and develop further initiatives to strengthen the local audit. In many cases desirable improvements are not within PSAA's sole gift and accordingly it is essential that this work is undertaken collaboratively with a common aim to ensure that local government continues to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body, we have fallback options to extend one or more existing contracts for the period spanning 2023/24 and 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the outcomes of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

Prior to initiating the procurement we will set out the detailed basis on which, if necessary, the fallback decision to extend one or more current contracts will be taken. One of the objectives of our approach will be to encourage firms to participate in the procurement and in doing so to ensure that their tenders reflect realistic market bid prices.

The MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. Subject to its outcome and the approval of relevant changes to the regulations, we are minded to set the length of the next compulsory appointing period as the five consecutive financial years commencing 1 April 2023.

In late September we plan to formally invite all eligible bodies to opt into the scheme for the second appointing period. We intend that bodies will be able to commit to join the scheme until the end of January 2022.

IMPORTANT TO NOTE: A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.

We hope you will be interested in the development of the national scheme for the second appointing period. We are keen to hear your views to help us shape our approach. Details of how you can send us your views are set out on page 16.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

“The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market.”

James Jamieson. Chairman of the Local Government Association

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context of a highly regulated service and profession which is subject to dynamic pressures for change.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money compared to alternative approaches and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014), and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution

to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO¹), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and plans which firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance

¹ MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility of and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent less than 5% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling, sometimes referred to as 'Post Office pricing', means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the legal framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

If the changes that relate to audit fees, proposed in MHCLG's recent consultation on the Appointing Person Regulations, are ultimately approved and implemented, PSAA will be able to manage the scale of fees and fee variations more flexibly. This will enable scale fees to be determined taking into account the outcome of more recently completed audits, and fee variations to be managed differently depending on whether they are driven by national or local factors.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact.

Scale audit fees are rising in response to the volume of additional audit work now required. However, in the case of audits which currently attract relatively modest scale fees, we are concerned that these may be insufficient to cover the actual cost of the audit. We therefore plan to carry out research to explore this risk more fully and to consider the possibility of introducing a minimum scale fee, to ensure that all fees are sufficient to cover the actual costs of a Code-compliant audit. Striving to ensure realistic fee levels is a vital prerequisite in relation to achieving a more sustainable local audit market.

If we decide to introduce a minimum fee, we would do so at the outset of the next appointing period in respect of the audit of 2023/24 accounts. We anticipate that the introduction of a minimum fee would be likely to lead to an increase in fees for a relatively small number of local bodies. It may also impact the scale fees of some pension fund audits.

Procurement Strategy

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;

- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

Aligned to setting the duration of the compulsory appointing period as five years, our current thinking is to set a **contract duration of five years** with the option to extend for a further one or two years with the supplier's agreement. We have considered other options which, for completeness, are explained in the annex to this prospectus together with our reasons for rejecting them.

Our initial thinking is to follow the **restricted procedure** (rather than the open procedure) in accordance with the current Public Contract Regulations given the current requirement that in order to undertake local audit work **firms must be registered with an RSB**. This could include a non-accredited firm working with an accredited firm we appoint as the auditor.

One of the proposed changes to the Appointing Person Regulations would enable PSAA to exercise greater flexibility in relation to the term of auditor appointments. In this context we are considering whether to establish a dynamic purchasing system (DPS) in parallel to the main procurement. Our thinking is that a DPS could provide the option for some or all subsequent auditor appointments, e.g. to newly established bodies, to be the subject of mini-procurements. It would also mitigate the risk that some audit firms might be "locked out" of the market for the new contract term if they are unsuccessful in the procurement.

Our initial thinking is that there could be **between seven and ten contract lots** with the aim of entering into contracts with a larger number of registered local public auditors than the current five. We feel this could contribute to longer-term market sustainability as well as helping us to manage any auditor independence issues.

Our current thinking is **contract lots should be graduated in size**. The **largest lot** would probably represent **around 20-25%** of the market compared to the 40% and 30% largest lots offered in 2017. As a consequence there are likely to be an **increased number of smaller lots** available. The exact number and size of lots will be influenced by the number of bodies that decide to opt into the scheme.

Our initial thinking is that, with the exception of the very smallest lots, each lot, in its final form, would reflect a **sensible balance of geography and a blend of the different authority types**.

At this stage we envisage that the value of each lot would be expressed in terms of the "audited body notional value" (ABNV), which would comprise the published scale fees for 2021/22. Recognising the potential for scale fees at individual bodies to change between the completion of the procurement process and the contract

commencement date, we envisage the inclusion of mechanisms to adjust scale fees transparently (either up or down) to ensure that both opted-in bodies and our contracted suppliers are neither advantaged nor disadvantaged by such changes. Importantly we hope this will avoid contingency provisions being built into firms' bids to mitigate risk.

We feel it would be beneficial to provide bidders with relevant information on each audit including the recent history of approved fee variations and the nature of any recurring fee variations that have already been incorporated into the scale fee. In this way we aim to establish a consistent and informed basis for the submission of tenders.

We envisage applying an evaluation ratio at tender stage that is significantly weighted towards quality. In 2017 we adopted a 50% quality: 50% price model. However, the market expectation has clearly shifted over recent years in response to the requirement for auditors to deliver higher quality audits. Recent similar public audit procurements indicate that anything less than an 80% weighting for quality would be viewed as being out of touch with the market and risk not attracting a sufficient range of suppliers.

Our current thinking is therefore to adopt **an 80% quality: 20% price weighting** which would align with recent similar public sector audit procurements. However, we recognise that this is an issue on which eligible bodies may also have strong views so are keen to hear bodies' thoughts.

Our current thinking is to test the following areas to assess the quality of tender responses: audit approach, quality assurance arrangements, resourcing, capacity & capability, management of the transition between audit firms and client relationship management and communication. We propose to underpin our more heavily weighted emphasis on quality with a series of KPIs derived from these areas.

One of the most concerning features of the local audit system since 2018 has been the large number of audit opinions which have been delayed beyond the target timetable set out in the Accounts & Audit Regulations, and the disruption and reputational damage that results for all parties as a result of those delays. The [NAO published a report](#) on this matter in March, 2021. The report concludes "The increase in late audit opinions, concerns about audit quality and doubts over audit firms' willingness to continue to audit local authorities all highlight that the situation needs urgent attention. This will require cooperation and collaboration by all bodies involved in the local audit system, together with clear leadership from government." We agree and we are working with partners on what actions PSAA and other market participants can take to avoid delayed opinions becoming a feature of the next appointing period. We know that there are no quick fixes, but we are determined to do all we can to bring about improvements, whilst recognising the importance of striking the right balance in relation to audit quality.

To support the drive for market sustainability, we are considering the following possible options:

- 1) accepting consortia bids including those that involve firms which are seeking to enter the market by gaining experience working in partnership with an existing registered supplier;
- 2) accepting bids from firms that are currently proceeding through the local audit registration process; and
- 3) inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market, mostly likely through some form of joint working arrangement between more experienced suppliers and new entrants or less experienced suppliers.

Additional costs may arise as an inevitable consequence of striving to bring new suppliers into the market. If additional costs were to occur, they would be borne by the scheme as a whole rather than by an individual audited body or a sub-set of bodies.

Social value

The Social Value Act 2012 applies to PSAA, therefore we must consider (a) how the audit services might “improve the social, economic and environmental well-being” of England and (b) how in conducting the process of procurement of those services we might act with a view to securing that improvement.

The collective, national nature of our contracts for audit services, which cover a significant number of diverse bodies do not easily provide scope for such improvement arising solely from procuring audit services.

As such we are considering whether to focus our approach to social value solely on audit apprenticeships which demonstrate a commitment to local audit and are awarded to residents of deprived areas. We feel this focus, whilst narrow, would deliver a tangible, measurable outcome for the long-term benefit of the sector. It would also build on the significant number of apprenticeships (137 to date) created as a result of our 2017 procurement.

Our initial thinking is to attach a **4% evaluation weighting to social value** (that equates to 5% of the quality score). However, we recognise that this is an issue on which eligible bodies may have views so are keen to hear bodies’ thoughts.

Scope of the procurement

The scope of the procurement will be the delivery of audit services for eligible bodies that decide to accept the invitation to opt into PSAA’s scheme.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in during the appointing period only, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused.

Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Evolution of the procurement strategy

Your feedback will inform our work to finalise the development of the procurement strategy, which we expect to issue with the formal opt-in invitation during September 2021. In parallel to this consultation, we are also undertaking an engagement exercise to seek to understand the views of the market.

Following the conclusion of the opt-in invitation period (likely to be during January 2022) there may be one further limited revision of the procurement strategy, depending upon the number of bodies that decide to opt-in and the impact of any potential changes to regulations or other environmental factors. We anticipate initiating the procurement for new audit services contracts in February 2022, culminating in contracts being awarded in June 2022.

Consultation: Tell us your views

We are keen to receive your feedback concerning our plans for the future scheme.

We welcome comments on the proposals contained in this draft prospectus. Please respond to the set of questions shown below via our [online survey](#). The consultation will close on **Thursday 8 July 2021**.

We will also be holding two interactive Q&A webinars to provide an overview of the draft prospectus and answer any questions that you may have on [16 June 10am to 11:15am](#) and [22 June 3pm to 4:15pm](#). You can book a place by clicking on the date and time links.

- Is PSAA right to prioritise the awarding of new longer term contracts with firms, based on realistic market bid prices, mitigating the risks of a less than fully successful procurement by holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required?
- Is five years an appropriate term for bodies to sign up to scheme membership?
- Is five years with the option to extend for up to two years subject to the supplier's agreement an appropriate term for the next audit services contracts?
- Is PSAA right to evaluate tender submissions on the basis of 80% quality and 20% price to align with market expectations and other recent public sector audit procurements?
- Is PSAA right to seek to encourage market sustainability within the local audit market by accepting bids from firms that are currently proceeding through the local audit registration process; by accepting consortia bids which may involve an unregistered firm gaining experience by working alongside a registered firm; and

by considering the inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market?

- Is PSAA's proposed approach to social value appropriate given the services to be procured will be delivered across the whole of England? Are there any alternative approaches that should be considered?
- Is PSAA right to carry out research and to consider setting a minimum audit fee in the next appointing period, recognising the increasing level of audit work now required and the risk that smaller scale fees may not be sufficient to cover the actual cost of the audit? What would be the key issues for PSAA to consider in the event that it opts to set a minimum fee for a Code-compliant audit?
- In the context of the recent NAO report, should PSAA and other market participants strive to prioritise the timeliness of audit opinions in the next appointing period? What actions should PSAA or other market participants take in order to avoid delayed opinions blighting the next period?
- Which specific benefits of the national scheme are most valuable to you? Are there other benefits we should strive to develop?
- What are the key issues which will influence your decision about scheme membership for the second appointing period?
- To inform the further development of our procurement approach, please indicate whether or not you anticipate that your organisation is likely to opt into our scheme?

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE CA

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at <https://www.psa.co.uk/about-us/who-we-are/board-members/>

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at <https://www.psa.co.uk/about-us/who-we-are/executive-team/>

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

Option 1

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

Option 2

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

Option 3

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.

During Autumn 2021 all local government and police bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

In relation to appointing auditors local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they can join and take advantage of the national collective scheme administered by PSAA.

The draft prospectus provides an introduction to the PSAA national scheme, and discusses and invites views and comments from local bodies and other interested parties in relation to the aims of the scheme and how it needs to develop going forward. Through this process we want to give you the opportunity to help us shape some of the important features of the scheme ahead of issuing formal invitations to opt in to all eligible bodies in the Autumn.

We are keen to receive your feedback concerning our plans for the future scheme. We welcome comments on the proposals through the set of questions captured in the survey below. The consultation will close on **Thursday 8 July 2021**.

Questions 1 and 2 require a response. All other questions are optional, however we encourage you to share your views on all questions with us.

Question Title

* 1. Contact details

Name

Organisation

Email address

Question Title

* 2. Please select your role

- Director of Finance
- Audit Committee chair
- National stakeholder
- Other, please provide details below

If you answered 'other' above, please specify your role here

Question Title

3. Is PSAA right to prioritise the awarding of new longer term contracts with firms, based on realistic market bid prices, mitigating the risks of a less than fully successful procurement by holding in reserve the option to extend one or more of the existing audit services contracts for up to two years if required?

- Yes
- No
- Maybe, subject to

If you would like to expand on your answer, please do so below

Question Title

4. Is five years an appropriate term for bodies to sign up to scheme membership?

- Yes
- No

If you would like to expand on your answer, please do so below

The term needs to be of sufficient duration to bring a level of stability and certainty and as such five years is appropriate term.

Question Title

5. Is five years with the option to extend for up to two years subject to the supplier's agreement an appropriate term for the next audit services contracts?

- Yes
- No

If you would like to expand on your answer, please do so below

Question Title

6. Is PSAA right to evaluate tender submissions on the basis of 80% quality and 20% price to align with market expectations and other recent public audit procurements?

- Yes
- No

If you would like to expand on your answer, please do so below

Where market expectation has shifted over recent years to delivery of higher quality audits the tender evaluations reflect the change in emphasis.

Question Title

7. Is PSAA right to seek to encourage market sustainability within the local audit market by accepting bids from firms that are currently proceeding through the local audit registration process; by accepting consortia bids which may involve an unregistered firm gaining experience by working alongside a registered firm; and by considering the inclusion of one or two lots specifically aimed at seeking to encourage additional capacity into the market?

- Yes
- No
- Maybe, subject to

If you would like to expand on your answer, please do so below

Balance here is to ensure audit quality is not compromised.

Question Title

8. Is PSAA's proposed approach to social value appropriate given the services to be procured will be delivered across the whole of England? Are there any alternative approaches that should be considered?

- Yes
- No

If you would like to expand on your answer, or share alternative approaches for consideration, please do so below

Question Title

9. Is PSAA right to carry out research and to consider setting a minimum audit fee in the next appointing period, recognising the increasing level of audit work now required and the risk that smaller scale fees may not be sufficient to cover the actual cost of the audit? What would be the key issues for PSAA to consider in the event that it opts to set a minimum fee for a Code-compliant audit?

- Yes
- No

To expand on your answer, or outline the key issues for PSAA to consider in setting a minimum fee, please do so below

How the minimum fee compares to the current fee structure and the consequent uplift for those councils ac affected.

Question Title

10. In the context of the recent NAO report, should PSAA and other market participants strive to prioritise the timeliness of audit opinions in the next appointing period? What actions should PSAA or other market participants take in order to avoid delayed opinions blighting the next period?

- Yes
- No

To expand on your answer, or outline what actions could be taken to avoid delayed opinions for the next period, please do so below

Audit firms to commit the resources necessary to complete the audit in line with the timetable agreed with th body.
More rigorous and robust challenge by PSAA where this is not the case.

Question Title

11. Which specific benefits of the national scheme are valuable to you? Are there other benefits we should strive to develop?

Avoids the need to establish an independent auditor panel and undertake procurement exercise either individually or with others; and benefits to be gained from bulk purchasing power.

Question Title

12. What are the key issues which will influence your decision about scheme membership for the second appointing period?

More rigorous and robust challenge of audit firms whe the timeliness of audit opinion delivery is found to be a concern.

Question Title

13. To inform the further development of our procurement approach, please indicate whether or not you anticipate that your organisation is likely to opt into our scheme?

- Yes
- No
- Maybe, subject to

If you would like to expand on your answer, please do so below

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Thank you for your response.

If you have comments about the way this consultation has been conducted, these should be sent by email to ap2@psaa.co.uk.

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Agenda Item 15

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 16

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 17

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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