

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 18 September 2019

Time: 7.00pm

Venue: Committee Room, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Derek Carnell, Simon Clark (Chairman), Simon Fowle, James Hall (Vice-Chairman), Ann Hampshire, Denise Knights, Peter Macdonald, Peter Marchington and Julian Saunders.

Quorum = 3

Pages

1. Emergency Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park. Nobody must leave the assembly point until everybody can be accounted for and nobody must return to the building until the Chairman has informed them that it is safe to do so; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes

3. Minutes

To approve the Minutes of the Meeting held on [29 July 2019](#) (Minute Nos. 167 - 173) as a correct record.

4. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

Part B Reports for Decision by the Committee

- | | | |
|----|---|---------|
| 5. | Work Plan (including professional updates) | 3 - 6 |
| 6. | Annual Treasury Management Review for 2018/19 | 7 - 18 |
| 7. | Internal Audit Charter for 2020/2021 | 19 - 32 |

Issued on Monday, 9 September 2019

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit www.swale.gov.uk

**Chief Executive, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

Annual Work Plan for Municipal Year 2019/20

29 July	Lead Officer
Work Plan	Chief Financial Officer
Audit Committee Annual Report for 2018/19	Head of Audit Partnership
Annual Internal Audit Report & Opinion for 2018/19	Head of Audit Partnership
External Auditor Audit Findings Report for 2018/19	External Auditor (Grant Thornton)
Annual Statement of Accounts for 2018/19 & Annual Governance Statement for 2018/19	Chief Financial Officer
External Audit Fee Letter for 2019/20	External Auditor (Grant Thornton)
18 September	Lead Officer
Work Plan	Chief Financial Officer
Annual Treasury Management Review for 2018/19	Chief Financial Officer
Annual Audit Letter for 2018/19	External Auditor (Grant Thornton)
Internal Audit Charter for 2020/21	Head of Audit Partnership
27 November	Lead Officer
Work Plan	Chief Financial Officer
Mid-Year Treasury Management Review for 2019/20	Chief Financial Officer
Fraud & Compliance Team Annual Report for 2018/19	Revenues & Benefits Manager
Internal Audit Interim Report for 2019/20	Head of Audit Partnership
External Audit Update Report for 2019/20	External Auditor (Grant Thornton)
11 March	Lead Officer
Work Plan	Chief Financial Officer
Internal Audit & Assurance Plan for 2020/21	Head of Audit Partnership
Strategic Risk Register Update for 2019/20	Head of Audit Partnership
Certification of Claims & Returns for 2018/19	External Auditor (Grant Thornton)
External Audit Plan for 2019/20	External Auditor (Grant Thornton)
Item Schedule To Be Confirmed	Lead Officer
External Quality Assessment of Internal Audit (timing tbc, could be March or July 2020 meeting)	Head of Audit Partnership

Appendix III

Annual Work Plan For Municipal Year 2019/20

Item & Description	29 Jul	18 Sep	27 Nov	11 Mar
Items related to the work of the Audit Committee				
Work Plan - <i>This paper, updated through the year, setting out a draft agenda for future Committees</i>	✓	✓	✓	✓
Audit Committee Annual Report 2018/19 - <i>Report looking back over the previous municipal year on the work of the Committee and how it has discharged its responsibilities under the Council's Constitution.</i>	✓			
Items from the Chief Financial Officer				
Annual Statement of Accounts & Annual Governance Statement 2018/19 - <i>The Council's audited financial statements for the year ended 31 March 2019 and a statement evaluating the Council's governance effectiveness over the year</i>	✓			
Treasury Management Review - <i>Summarising the Council's investments and borrowing, setting out conformance with risk and credit limits. September is the 2018/19 annual report, November a mid-year summary for 2019/20.</i>		✓	✓	
Fraud & Compliance Team Annual Report 2018/19 - <i>Annual report summarising the work of the compliance team working within the Council's Revenues & Benefits service.</i>		✓		
Items from the Head of Audit Partnership				
Internal Audit & Assurance Report - <i>July is the annual report giving the Head of Internal Audit's Opinion on the Council's internal control, risk management and governance for the year just ended and setting out the work that underpins the opinion. Internal Audit provide also a mid-year update in November on current year work in progress.</i>	✓		✓	
Internal Audit Charter for 2020/21 - <i>Setting out the overall terms of reference for the audit service and its relationships with members and officers. The Charter informs audit planning for the year ahead.</i>		✓		

Item & Description	29 Jul	18 Sep	27 Nov	11 Mar
Items from the Head of Audit Partnership (continued)				
Internal Audit & Assurance Plan 2020/21 - <i>Setting out internal audit's risk assessment of the Council and planned audit and assurance work in response that will go towards supporting the year-end opinion</i>				✓
Strategic Risk Register Overview - <i>Annual report setting out the process of risk management at the Council and in particular the Council's strategic risks and actions to mitigate.</i>				✓
External Quality Assurance Report - <i>Findings report of the 5-yearly review of internal audit quality required under Public Sector Internal Audit Standards. Report expected spring 2020.</i>				?
Items from the External Auditor (Grant Thornton)				
Audit Findings Report 2018/19 - <i>Setting out the auditor's findings from work reviewing the Council's Statement of Accounts. Includes draft auditors' opinion on the statements and value for money conclusion.</i>	✓			
Fee Letter 2019/20 - <i>Confirming the audit fee set by Public Sector Audit Appointments Limited for the audit of the Council's 2019/20 financial statements and related work.</i>	✓			
Annual Audit Letter 2018/19 - <i>Letter summarising findings from all the external auditor's work for the year, and closing the annual audit.</i>		✓		
Annual Audit Plan 2020/21 - <i>Setting out the external auditor's planned work that will lead towards the opinion and value for money conclusion for the year ended 31 March 2021.</i>				✓
External Audit Update Reports - <i>External audit periodically provide update reports on matters of local or sector interest.</i>		?	?	?

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Agenda Item 6

Audit Committee		Agenda Item: 6
Meeting Date	18 September 2019	
Report Title	Annual Treasury Management Report 2018/19	
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance	
SMT Lead	Nick Vickers, Chief Financial Officer	
Head of Service	Nick Vickers, Chief Financial Officer	
Lead Officer	Phil Wilson, Financial Services Manager/ Olga Cole, Management Accountant	
Key Decision	No	
Classification	Open	

Recommendations	1. Approve the Treasury Management stewardship report for 2018/19.
	2. Approve the Prudential and Treasury Management Indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The Council's Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year.
- 1.2 Treasury Management is defined as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council's Treasury Management objectives.
- 1.3 For 2018/19 the Investments Section of the Kent County Council (KCC) Finance Department had operational responsibility for the daily treasury management duties in order to cover a maternity leave. KCC Finance in undertaking this work had to comply with this Council's Treasury Management Strategy. Overall responsibility for Treasury Management remained with the Council.
- 1.4 This report:
 - is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;

- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2018/19; and
- confirms compliance with Treasury limits and Prudential Indicators.

1.5 This report will be submitted to Council on 9 October 2019.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2018	Movement in Year	Balance on 31/3/2019
	£'000	£'000	£'000
Capital Financing Requirement	12,511	+15,254	27,765
Other Long-Term Liabilities (cost of leases for equipment)	(140)	+140	0
Borrowing Capital Financing Requirement	12,371	15,394	27,765
External Borrowing	0	(10,000)	(10,000)
Cumulative External Borrowing Requirement	12,371	5,394	17,765

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2.3 The reason for the increase in the CFR in 2018/19 is due to the capital expenditure on works undertaken as part of the Sittingbourne Town Centre regeneration project and which were financed from borrowing. The CFR will be reduced in the future by contributions from rental income.

2.4 In 2018/19, the Council took out two loans of £5 million each, from other local authorities. One loan was for 12 months at a rate of 1.1% and the second loan was for 18 months at a rate of 1.2%.

Investment Activity

2.5 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19, the Council held average daily cash balances of £28 million, which is a decrease of £8 million on the previous year due to the level of expenditure on Sittingbourne Town Centre.

2.6 The Council's budgeted investment income for 2018/19 was £110,000 and the actual income received was £290,000, of which £132,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund. The CCLA investment has been a highly successful one for the Council as UK commercial property has continued to perform well. There was also an improvement in the rates paid on the Council's deposits as a result of the base rate rise in 2018/19.

2.7 The table below summarises the Council's investment portfolio at 31 March 2019. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2019.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2019 £'000
Invesco MMF	AAAmmf	3,000
Goldman Sachs MMF	AAAmmf	2,990
Morgan Stanley MMF	AAAmmf	3,000
Black Rock MMF	AAAmmf	3,000
Aberdeen MMF	AAAmmf	3,000
Amundi MMF	AAAmmf	3,000
Sub Total Cash & Cash Equivalents		17,990
CCLA Property Fund	unrated	3,000
Sub Total Long-Term Investments		3,000
Total		20,990

2.8 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:

- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

2.9 The treasury management position for the year is summarised below:

Investments	Balance on 31/03/18 £'000	Movement in Year £'000	Balance on 31/03/19 £'000	Average Rate %
Short-Term Investments and Cash and Cash Equivalents	16,815	1,175	17,990	0.90
Long-Term Investments	3,000	0	3,000	4.40
TOTAL INVESTMENTS	19,815	1,175	20,990	
Borrowing				
Long-Term Borrowing	0	(5,000)	(5,000)	1.21
Short-Term Borrowing	0	(5,000)	(5,000)	1.10
TOTAL BORROWING	0	(10,000)	(10,000)	

The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund.

2.10 The Council's investment strategy has two overriding principles:

- Minimising the cost to the revenue budget - given the continued reductions in local government financing there is no scope within the revenue budget to meet debt charge costs. If the Council incurred debt charge costs then, unless the investment generated sufficient income to cover these costs, the Council may have to reduce services to fund the costs. In the case of the Sittingbourne Town Centre investment all the capital financing costs will be funded from rental income; and,
- Strategic impact - if the Council is going to invest in property it needs to support the Council's wider objectives around regeneration of the Council and creating new employment. This means there needs to be additionality in terms of the wider economic benefits e.g. higher business rates.

2.11 In keeping with the Ministry of Housing, Communities and Local Government's (MHCLG's) Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts.

2.12 The Council sought to optimise returns commensurate with its objectives of security and liquidity.

2.13 The criteria applied by the Chief Financial Officer for the approval of a counter party for deposits are:

- credit rating - a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group; and
- country exposure.

2.14 The investments permissible by the 2018/19 Treasury Strategy were:

Investment	Limit	Used in 2018/19?
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited	Yes
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m	HSBC, Lloyds Bank
Svenska Handelsbanken unsecured deposits	£3m	No
Leeds Building Society unsecured deposits	£1.5m	No
Close Brothers unsecured deposits	£1.5m	No
Major overseas banks unsecured deposits (to be determined based upon Arlingclose advice) Netherlands: Bank Nederlande Gemeeten, Rabobank Singapore: OCBC, UOB, DBS Sweden: Nordea Bank Denmark: Danske Bank USA: JP Morgan Chase Australia: Australian and New Zealand Banking Group, Commonwealth Bank of Australia, National Australian Bank Ltd, Westpac Banking Corp Canada: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto Dominion Bank	£1.5m limit per bank, £3m country limit	No
Money Market Funds	£3m each	Yes
Cash Plus Funds and Short Dated Bond Funds	£3m each	No

Investment	Limit	Used in 2018/19?
Multi Asset Income Funds	£3m each	No
CCLA Property Fund	£3m	Yes
Supranational Bonds	£3m in aggregate	No
Corporate Bond Funds and Corporate Bonds	£3m in aggregate	No
Non-Treasury Investments	To be agreed on a case by case basis	Yes
Covered Bonds	£9m in aggregate with £3m limit per bank	No
Absolute Return Funds	£3m in aggregate	No
Equity Income Funds	£3m in aggregate	No

2.15 The maximum permitted duration for deposits is 13 months. The Chief Financial Officer in consultation with the Leader and Cabinet Member for Finance may consider longer duration. Bonds can be purchased with a maximum duration of five years.

2.16 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. In 2018/19, the Council held £3 million of such longstanding investments in 14 directly owned properties. These investments generated £0.2 million of investment income for the Council after taking account of direct costs, representing a rate of return of 5%.

External Context

2.17 The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in August 2018 to 0.75%, no changes to monetary policy have been made since.

2.18 The Council has seen a dramatic change over the last nine years in how it is funded. The Revenue Support Grant will disappear completely in 2020/21, and in its place the Council has become reliant on income sources that are

related in full or in some part to issues over which it has control. This sets the pattern for how councils will be funded in the future.

Compliance

- 2.19 The Council has complied with its Prudential and Treasury Management Indicators for 2018/19 which were set as part of the Treasury Management Strategy agreed by Council in February 2018.
- 2.20 In Appendix I the outturn position for the year against each Prudential Indicator is set out.
- 2.21 The Chief Financial Officer confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy

Treasury Advisers

- 2.22 Arlingclose has been the Council's treasury advisers since May 2009. The current contract had an option of a two-year extension and this was taken up in May 2019. Officers of the Council meet with Arlingclose regularly and high quality and timely information is received from them.

Capital Strategy

- 2.23 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 20 February 2019.

3. Proposal

- 3.1 Members are asked to approve the report.

4. Alternative Proposals

- 4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

- 5.1 Arlingclose have been consulted.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report

Issue	Implications
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance
Crime and Disorder	Not relevant to this report
Environment and Sustainability	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2018/19

Introduction

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2018/19. Actual figures have been taken from or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2018/19 Estimate	2018/19 Actual	2018/19 Difference
	£'000	£'000	£'000
Total Capital Expenditure	20,347	18,871	(1,476)
Capital Receipts	107	438	331
Grants and Other Contributions	3,666	2,382	(1,284)
Reserves	434	359	(75)
Internal/External Borrowing	16,140	15,692	(448)
Total Financing	20,347	18,871	(1,476)

Treasury Management and Prudential Indicators for 2018/19

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/19 Estimate	31/03/19 Actual	31/03/19 Difference
	£'000	£'000	£'000
Total CFR	41,572	27,765	(13,807)
Less: Other Long-Term Liabilities	(41)	0	41
Borrowing CFR	41,531	27,765	(13,766)
External Borrowing	(26,522)	(10,000)	16,522
Cumulative External Borrowing Requirement	15,009	17,765	2,756

External borrowing: as at 31 March 2019 the Council had £10 million of external borrowing.

Operational Boundary for External Debt: The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary and Total Debt	31/03/19 Boundary	31/03/19 Actual Debt	Complied
	£'000	£'000	
Borrowing	55,000	10,000	✓
Other Long-Term Liabilities	24	0	✓
Total Operational Boundary	55,024	10,000	✓

Treasury Management and Prudential Indicators for 2018/19

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	31/03/19 Boundary	31/03/19 Actual Debt	Complied
	£'000	£'000	
Borrowing	60,000	10,000	✓
Other Long-Term Liabilities	2,000	0	✓
Total Authorised Limit	62,000	10,000	✓

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2018/19.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	31/03/19 Estimate	31/03/19 Actual	Difference
	%	%	%
General Fund Total	7.01	0.94	6.07

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net interest payable was:

Interest Rate Exposures	31/03/19 Actual	2018/19 Limit	Complied
	%	%	
Interest on Fixed Rate Investments	0	-100	✓
Interest on Variable Rate Investments	-100	-100	✓
Interest on Fixed Rate Borrowing	100	100	✓
Interest on Variable Rate Borrowing	0	100	✓

Treasury Management and Prudential Indicators for 2018/19

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/19 Actual	Upper Limit	Lower Limit	Complied
	%	%	%	
Under 12 months	50	100	0	✓
12 months and within 24 months	50	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2018/19 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Investment Benchmarking

Average Actual Return on Investments 2018/19	Original Estimate Return on Investments 2018/19	Average Bank Rate 2018/19	Average 7-day LIBID Rate 2018/19
0.90%	0.39%	0.67%	0.51%

(The London Interbank Bid Rate (LIBID) is a bid rate; the rate at which a bank is willing to borrow from other banks)

Audit Committee Meeting	
Meeting Date	18 September 2019
Report Title	Internal Audit Charter
Cabinet Member	Cllr Roger Truelove, Cabinet Member for Finance & Leader of the Council
SMT Lead	Nick Vickers, Chief Financial Officer
Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer	Rich Clarke, Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendation	1. Approve the Internal Audit Charter

1 Purpose of Report and Executive Summary

- 1.1 Public Sector Internal Audit Standards (the “Standards”) prescribe a Charter that sets out the purpose, authority and responsibility of the Council’s internal audit service. The Charter also affirms and accepts the professional standards governing the practice of internal audit at the Council.

- 1.2 This Committee approved a previous version of the Internal Audit Charter. The Council must review and update the Charter periodically to reflect changes in Standards and practice, most notably the 2017 update to Standards. The Charter attached for approval draws from a model document published by the Institute of Internal Audit (IIA), adapted for the Council’s circumstances and edited for clarity.

2 Background

- 2.1 An Audit Charter is prescribed by Public Sector Internal Audit Standards (Standard 1000) and is a foundational document setting out the size and scope of the service. A partial extract, describing the Standards requirement is below:

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 *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity;
- cover the arrangements for appropriate resourcing;
- define the role of internal audit in any fraud-related work; and
- include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

1000.C1

The nature of consulting services must be defined in the internal audit charter.

2.2 Later this year the internal audit service will undergo an External Quality Assessment on conformance with the Standards. Ahead of that assessment provides a good opportunity to revisit the Charter and update it for changes to Standards and development of audit practice. We have also taken the opportunity to clarify and simplify the Charter.

2.3 Notable sections of the Charter include:

- Confirmation of adherence to the Standards and various other regulatory and professional guidance (paragraphs 3-5 of the Charter)
- Description of the Committee's role in support internal audit's independence and effectiveness (paragraphs 8-10 of the Charter)
- Confirmation of Mid Kent Audit's operational independence and details of how to identify and resolve conflicts of interest (paragraphs 12-19)
- The quality standards of internal audit and how these will be maintained (paragraphs 21-25)
- Responsibilities of the Head of Audit Partnership for the service (paragraphs 26-27)

3 Proposals

- 3.1 We recommend the Committee approves the attached Charter. This will ensure continued adherence to professional Standards and the Council holds a Charter which fully and accurately sets out the purpose, authority and responsibilities of internal audit at the Council.

4 Alternative Options

- 4.1 Having an internal audit charter is a duty set by the Accounts & Audit Regulations in their direction to adhere to the Standards.
- 4.2 The Council currently has a Charter that remains valid unless and until replaced. However the current draft has fallen behind developments in Standards – most notably the 2017 update – and also no longer accords to the practice of internal audit at the authority. For example, it does not clearly set out the required quality standards.

5 Consultation Undertaken or Proposed

- 5.1 The Charter has been shaped by continuing discussions with officers and Members and reflects the current position of internal audit within the Council.

6 Implications

Issue	Implications
Corporate Plan	Approving an up to date internal audit will help improve the Council's governance. Good governance will support achievement of the Council's priorities.
Financial, Resource and Property	The Charter describes current audit practice and so will be delivered with currently agreed resources.
Legal, Statutory and Procurement	Approving an Internal Audit Charter will contribute towards the Council's conformance with the Accounts & Audit Regulations 2015 in providing an internal audit service adhering to the Public Sector Internal Audit Standards.
Crime and Disorder	No direct material implications.
Environment and Sustainability	No direct material implications.
Health and Wellbeing	No direct material implications.

Issue	Implications
Risk Management and Health and Safety	No direct material implications.
Equality and Diversity	No direct material implications.
Privacy and Data Protection	No direct material implications.

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: Internal Audit Charter (September 2019)

8 Background Papers

The Charter draws on various sources of external professional guidance and standards. These are hyperlinked within the document.

Internal Audit Charter Swale Borough Council

Purpose & Mission

1. The purpose of Swale Borough Council's (the "Council") internal audit service ("Mid Kent Audit") is to provide independent, objective assurance and consulting services designed to add value and improve the Council's performance. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight. Mid Kent Audit helps the Council achieve objectives with a systematic, disciplined approach to evaluating and improving effectiveness of governance, risk management and control.
2. Final approval of the Charter rests with the Audit Committee (the "Committee"). The Head of Audit Partnership will keep the Charter under review and re-present for approval each year after consultation with Senior Management.

Standards for the Professional Practice of Internal Auditing

3. Mid Kent Audit will govern itself by adherence to the compulsory parts of the Institute of Internal Auditors' (IIA) [International Professional Practices Framework \(IPPF\)](#). These include:
 - The Core Principles for the Professional Practice of Internal Auditing.
 - The [Code of Ethics](#).
 - The International Standards for the Professional Practice of Internal Auditing. In the UK by the Internal Audit Standards Advisory Board and the Relevant Internal Audit Standards Setters adapt these into [the Public Sector Internal Audit Standards](#) (the "Standards").
 - The Definition of Internal Auditing set out by the IIA.

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4. Mid Kent Audit will also govern itself under the *Local Government Application Note (2019 Edition)*¹ set out by the Chartered Institute of Public Finance & Accounting (CIPFA). Auditors who belong to other professional institutes will also adhere to the relevant Code of Ethics.
5. The Head of Audit Partnership will report periodically to Senior Management and the Committee on Mid Kent Audit's conformance to the Code of Ethics and the Standards.

Authority

6. Internal Audit is a statutory service for local authorities as set out in the [Accounts & Audit Regulations 2015](#) (the "Regulations"). Specifically, Regulation 5 demands that authorities:
 - "... undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
7. The Head of Audit Partnership will report functionally to the Committee and administratively to the Mid Kent Services Director. Within the Council, the Head of Audit Partnership will also liaise chiefly with the Chief Financial Officer as a representative of Senior Management.
8. To assure that Mid Kent Audit has authority to fulfil its duties the Committee will:
 - Approve the Internal Audit Charter.
 - Approve the risk-based internal audit plan (including proposed resources).
 - Receive communications from the Head of Audit Partnership on Mid Kent Audit's performance against its plan and other matters.
 - Through the Chair, be consulted on appointment or removal of the Head of Audit Partnership.
 - Through the Chair, contribute to Head of Audit Partnership appraisals carried out by the Mid Kent Services Director.

¹ The Application Note is a paid-for publication. We can provide copies to Members on request but cannot link in full through the public version of this Charter.

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- Make suitable enquiries of management and the Head of Audit Partnership to discover any improper limits to audit scope or resources.
 - Require suitable explanations of planned actions, including through attendance in person, from lead officers following adverse engagement opinions.
9. The Head of Audit Partnership will have unrestricted access to, and communicate and interact direct with, the Committee including in private meetings without management present.
10. The Committee and Senior Management sanction Mid Kent Audit to:
- Have full, free and unrestricted access to all works, records, property and personnel relevant to carrying out any engagement. This is subject to accountability for confidentiality and safeguarding records and information.
 - Assign resources, set frequencies, select subjects, decide scopes of work, apply techniques needed to perform audit objectives and issue reports.
 - Seek and receive any support needed from the Council's personnel, including contractors, to complete engagements.
11. These duties also stem from Regulations. These direct the Council to: "make available such documents and records and supply such information and explanations as are considered necessary by those conducting the internal audit".

Independence and Objectivity

12. The Head of Audit Partnership will ensure Mid Kent Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities without bias. These include matters of audit selection, scope, procedures, frequency, timing and report content. The Head of Audit Partnership will report if independence or objectivity may be under threat in fact or appearance.

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13. Internal auditors will preserve an unbiased approach that allows them to perform engagements objectively. They will believe in their work, make no quality compromises, and not subordinate their audit judgement to others.
14. Internal auditors will have no direct responsibility or authority over any of the subjects audited. So, internal auditors will not set up internal controls, develop procedures, prepare records, or engage in any other action that may hinder their judgement. This includes:
 - Assessing services for which they had any responsibility within the previous year.
 - Setting up or approving transactions external to Mid Kent Audit.
 - Directing any Council employee not employed by Mid Kent Audit, except those properly assigned to help internal audit.
 - Reviewing parts of the Council staffed by close friends or family members.
15. Where the Head of Audit Partnership has roles that fall outside internal audit, the Council will set up safeguards to limit impacts to independence or objectivity.
16. At the Council, the Head of Audit Partnership has ancillary roles as set out in the *Risk Management Framework*, the *Counter Fraud Policy*, the *Whistleblowing Policy* and *Anti Money Laundering Procedures*. As set out in the audit plan, the Head of Audit Partnership also has on-demand ancillary advisory roles on counter fraud and investigative work.
17. In carrying out their roles auditors will follow the independence and objectivity principles in this Charter. On Risk Management, specifically, auditors will adhere to the guidance set out by the IIA in its position paper on *Risk Management and Internal Audit* [published on 11 July 2019](#).

18. Internal auditors will:

- Disclose any limit of independence or objectivity, in fact or appearance, to suitable parties.
- Display professional objectivity in gathering, evaluating and communicating information about audit engagements.
- Deliver balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid undue influence by their own interests or by others in forming judgements.

19. The Head of Audit Partnership will confirm to the Committee at least yearly the organisational independence of Mid Kent Audit.

20. The Head of Audit Partnership will disclose to the Committee any interference and related implications in fixing the scope of internal audits, performing work or communicating results.

Scope of Internal Audit Work

21. The scope of internal audit work covers the Council's whole control environment. This includes objective examination of evidence to create independent assessments to the Committee, management and others on the adequacy and effectiveness of governance, risk management and control. Internal audit assessments include evaluating whether:

- The Council properly identifies and manages risks on its strategic and other objectives.
- The actions of the Council's officers and contractors comply with the Council's policies, procedures and applicable laws, regulations and governance standards.
- The results of Council work and programs are consistent with agreed goals and objectives.
- The Council carries out its work and programs effectively and efficiently.
- Council systems enable compliance with the policies, procedures, laws and regulations that could cause significant impact.

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- Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity.
 - The Council gains assets economically, uses them efficiently and protects them adequately.
22. These assessments will lead to a Head of Audit Partnership opinion as described by the Standards. The opinion will report on the adequacy and effectiveness of the Council's internal control, corporate governance and risk management.
23. The Head of Audit Partnership will report periodically to senior management and the Committee about:
- Mid Kent Audit's purpose, authority and responsibility.
 - Mid Kent Audit's plan, and performance against its plan.
 - Mid Kent Audit's conformance with the IIA's Code of Ethics and Standards and action plans to address any significant issues.
 - Significant risk exposures and control issues, including fraud risks, governance issues and other matters demanding the attention of, or sought by, the Committee.
 - Results of audit engagement or other work.
 - Audit resource use and need.
 - Any management risk response that may be unacceptable to the Council.
24. The Head of Audit Partnership also coordinates work where possible, and considers relying on the work of other internal and external assurance and consulting service providers as needed. Mid Kent Audit may perform advisory and related client service work. Mid Kent Audit will agree the nature and scope of such work with the client, provided Mid Kent Audit does not assume management responsibility.
25. Mid Kent Audit may identify opportunities for improving the efficiency of governance, risk management and controls during engagements. Where identified, Mid Kent Audit will communicate these opportunities to management.

Responsibility

26. The Head of Audit Partnership has the responsibility to:

- Present, at least yearly, to senior management and the Committee a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Committee the impact of resource limits on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, programs, systems and controls.
- Communicate immediately to senior management and the Committee any significant interim changes to the internal audit plan. A 'significant' change covers one or more of the following:
 - Removal of a 'high priority' audit engagement.
 - Commitments beyond the approved budget or resource envelope.
 - Other changes that, in the view of the Head of Audit Partnership, may inhibit ability of Mid Kent Audit to deliver a robust opinion as set out by the Standards.
- Ensure each engagement of the internal audit plan adheres to quality standards. This includes:
 - Setting out suitable objectives and scope.
 - Assigning suitable and adequately supervised auditors
 - Documenting work programs and testing results.
 - Communicating results with applicable conclusions and recommendations to proper parties.
- Follow up on engagement findings and corrective actions. Report periodically to senior management and the Committee any corrective actions not taken effectively.
- Ensure application of and adherence to the principles of integrity, objectivity, confidentiality and competency.
- Ensure that Mid Kent Audit collectively has or gains the knowledge, skills and other competencies needed to fulfil this Charter.

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- Ensure consideration of trends and emerging issues that could impact and communicating these to senior management and the Committee as fitting.
 - Ensure consideration of emerging trends and successful practices in internal auditing.
 - Set up and ensure adherence to policies and procedures designed to guide Mid Kent Audit's work.
 - Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the Charter. Report any such conflicts to senior management and the Committee with a suggested path to resolution.
27. The Council will also consider CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations ([2019 edition](#)). In particular when setting job roles and overseeing performance of the Head of Audit Partnership.

Quality Assurance and Improvement Programme

28. Mid Kent Audit will keep a quality assurance and improvement programme that covers all its work. The programme will include an evaluation of conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of Mid Kent Audit's work and identify opportunities for improvement.
29. The Head of Audit Partnership will communicate to senior management and the Committee on the quality and improvement plan. This will include results of internal assessments and an external assessment conducted at least once every five years by a qualified, independent assessor.

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Charter Approval

This Charter is authorised within Swale Borough Council by:

Nick Vickers: Chief Financial Officer

Councillor Simon Clark: Chairman of the Audit Committee

With the agreement of:

Rich Clarke: Head of Audit Partnership

Steve McGinnes: Mid Kent Services Director

Glossary and Standards Reconciliation

- **The Audit Committee (“Committee”)** is the ‘Board’ as referenced by Standard 1000 and elsewhere in the Standards.
- **The Head of Audit Partnership** is the ‘Chief Audit Executive’ as referenced by Standard 1000 and elsewhere in the Standards.
- **The Senior Management Team (SMT)** are ‘Senior Management’ as referenced by Standard 1000 and elsewhere in the Standards. SMT includes the Council’s Monitoring Officer and s.151 Officer.
- **The Corporate Leadership Team (CLT)** or their delegates are ‘Management’ as referenced by Standard 1000 and elsewhere in the Standards.

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