

AGENDA

AUDIT COMMITTEE MEETING

Date: Tuesday, 21 January 2020

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 [18 September 2019](#) (Minute Nos. 230 - 235) 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.

5.	Mid-Year Treasury Management Review for 2019/20	3 - 14
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Issued on Monday, 13 January 2020

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Agenda Item 5

Audit Committee	Agenda Item:
Meeting Date	21 January 2020
Report Title	Treasury Management Half Year Report 2019/20
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	<ol style="list-style-type: none">1. To note the performance information in this report.2. To approve the prudential and treasury management indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2019/20, including compliance with treasury limits and Prudential and Treasury Performance Indicators. The report was to go to the Audit Committee on 27 November, but the meeting was re-arranged due to the General Election. The report will go to Council on 26 February 2020.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.
- 1.3 The Council's treasury management strategy for 2019/20 was approved at a meeting on 20 February 2019. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

2. Background

Market Environment

- 2.1 UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target.

- 2.2 The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased dramatically.
- 2.3 The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment linked largely to concerns over trade wars.
- 2.4 The Public Works Loan Board (PWLB) increased the margin applied to loan rates by 100 basis points (one percentage point) on 9 October 2019, the new margin above gilts is now 180 basis points for certainty rate loans. HM Treasury say that the reason for the increase in the PWLB borrowing rate was the significant rise in the use of PWLB loans by some authorities. It seems to reflect Government concern over councils borrowing to buy existing commercial property assets. Given that Government also wants to encourage borrowing for Housing and Regeneration purposes, the action does seem to be misguided.
- 2.5 There are plenty of alternatives to the use of the PWLB, such as borrowing from other councils, which is what we have done.

Borrowing

- 2.6 In 2019/20, the Council took out two loans of £5 million each, from other local authorities. One loan was for 12 months at a rate of 0.95% and the second loan was for 18 months at a rate of 1.1%.
- 2.7 Together with the two loans taken out in 2018/19, this meant that on 30 September 2019, the Council's external borrowing stood at £20 million.

Investments

- 2.8 The counterparties agreed by Cabinet and Council earlier this year, when the 2019/20 Treasury Strategy was approved are:

Counterparties	Limit
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Pooled Funds e.g. Property Real Estate Investment Trusts (REITs), Absolute return, Equity income	£3m each

Counterparties	Limit
Church, Charities and Local Authorities (CCLA) Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bond Funds and Corporate Bonds	£3m in aggregate
Non treasury investments	To be agreed on a case by case basis
Covered Bonds	£3m in aggregate with £1m limit per bank

- 2.9 Investments held at 30 September 2019 can be found in Appendix I.
- 2.10 Interest income received for the first half of 2019/20 was £157,355.80.
- 2.11 For the six months to 30 September 2019, the Council maintained an average sum invested of £28.9m compared with an original budget of £23.5m, and an average rate of return of 1.09% compared to a budget of 0.47%.
- 2.12 The results for the six months to 30 September 2019 show that the Council achieved 0.56% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.34% average return rate above the average Bank of England Base Rate.
- 2.13 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 4.42%, comprising a £66,507.81 income return. Since this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

- 2.14 The Council can confirm that it has complied with its Prudential Indicators for 2019/20 which were set in February 2019 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.
- 2.15 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

- 3.1 No changes are proposed at this stage.

4. Alternative Options

- 4.1 The Chief Financial Officer will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5. Consultation Undertaken

- 5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	Need to comply with MHCLG guidance on treasury management.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Sustainability	The Council does not own any shares or corporate bonds so there are no ethical investment consideration to be met.
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

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

- Appendix I: Investments and Borrowing as at 30 September 2019
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments and Borrowings as at 30 September 2019

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2019 £'000
Debt Management Office (Bank of England)	AA	3,350
Debt Management Office (Bank of England)	AA	350
Total Bank Deposits		3,700
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAmmf	3,000
Deutsche Money Market Fund	AAmmf	2,130
Goldman Sachs Money Market Fund	AAmmf	3,000
Aberdeen Money Market Fund	AAmmf	3,000
Black Rock Money Market Fund	AAmmf	3,000
JP Morgan Money Market Fund	AAmmf	690
Amundi Money Market Fund	AAmmf	3,000
Morgan Stanley Money Market Fund	AAmmf	3,000
SSGA Money Market Fund	AAmmf	3,000
CCLA Property Fund		3,000
Total Money Market and Property Funds		26,820
Total Investments		30,520
London Borough Hammersmith & Fulham		-5,000
Wycombe District Council		-5,000
London Borough of Camden		-5,000
London Borough of Islington		-5,000
Total Borrowing		-20,000

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAmmf: Fund have very strong ability to meet the dual objective of providing liquidity and preserving capital

AA: Banks with AA rating are judged to be of low credit risk

Investments and Borrowings as at 30 September 2019

Investment Activity in 2019/20

Investments	Balance on 01/04/2019	Investments Made	Investments Repaid	Balance on 30/09/2019	Average Rate
	£'000	£'000	£'000	£'000	%
Short Term Investments and Cash and Cash Equivalents	17,990	98,920	(89,390)	27,520	1.09
Long Term Investments	3,000	0	0	3,000	4.42
TOTAL INVESTMENTS	20,990	98,920	(89,390)	30,520	

Borrowing Activity in 2019/20

Borrowing	Balance on 01/04/2019	Borrowing Made	Borrowing Repaid	Balance on 30/09/2019	Average Rate
	£'000	£'000	£'000	£'000	%
External Borrowing	10,000	10,000	0	20,000	1.125
Total Borrowing	10,000	10,000	0	20,000	

Non-Treasury Investments

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 MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Council holds £3m of such investments in directly owned property.

These investments are expected to generate £0.2m of investment income for the Council after taking account of direct costs, representing a rate of return of 5.9%.

Prudential and Treasury Management Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Gross Debt and the Capital Financing Requirement	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirements	27,765	42,475	41,395	40,314
Gross External Debt	(10,000)	(5,000)	0	0
Net Investments	17,765	37,475	41,395	40,314

External Borrowing: as at 30 September 2019 the Council had £20 million of external borrowing – please see Appendix I for further details.

Prudential and Treasury Management Indicators

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	2018/19 Actual £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Total Expenditure	18,871	18,652	2,240	2,470
Capital receipts	438	350	0	0
Grants and other contributions	2,382	3,763	2,105	2,264
Reserves	359	326	135	206
Internal/External borrowing	15,692	14,213	0	0
Total Financing	18,871	18,652	2,240	2,470

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2018/19 Actual %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Total	0.94	3.2	5.6	5.4

Prudential and Treasury Management Indicators

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/09/2019	£'000
Borrowing	20,000
Other Long-term Liabilities	0
Total	20,000

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Borrowing	60,000	60,000	60,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	62,000	62,000	62,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Prudential and Treasury Management Indicators

Operational Boundary	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	500	500	500
Total Debt	55,500	55,500	55,500

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2019.

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

Upper Limit for Interest Rate Exposure	Existing level at 30/09/19	2019/20 Approved Limit	2020/21 Approved Limit	2021/22 Approved Limit
Interest on fixed rate borrowing	100%	100%	100%	100%
Interest on fixed rate investments	-12%	-100%	-100%	-100%
Upper Limit for Fixed Interest Rate Exposure	88%	0%	0%	0%
Interest on variable rate borrowing	0%	100%	100%	100%
Interest on variable rate investments	-88%	-100%	-100%	-100%
Upper Limit for Variable Interest Rate Exposure	-88%	0%	0%	0%

Prudential and Treasury Management Indicators

8. Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Existing level at 30/09/19 %	Lower Limit for 2019/20 %	Upper Limit for 2019/20 %	Complied
Under 12 months	0	0	100	✓
12 months and within 24 months	100	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

Prudential and Treasury Management Indicators

The Chief Financial Officer confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	2019/20 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

11. Investment Benchmarking for the six months to 30 September 2019

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average 7 day LIBID Rate
1.09%	0.47%	0.75%	0.53%

Audit Committee Meeting	
Meeting Date	21 January 2020
Report Title	Fraud Service Update
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	Zoe Kent, Revenues and Benefits Manager
Key Decision	No
Classification	Open
Recommendations	1. That the report is noted.

1 Purpose of Report and Executive Summary

- 1.1 In 2016 Housing Benefit fraud was moved from being investigated by the Council's Housing Benefit service to the Department for Work and Pensions (DWP). The Council took the decision to continue with a shared fraud team as part of Mid Kent Services using the team to investigate fraud and error in Council Tax, Business Rates and other Council services.

2 Background

- 2.1 The localisation of Council Tax Support and Business Rates changed the financial risk to the Council and preceptors. Whilst there had been some activity to address the risk associated with single person discounts for Council Tax, the service had historically focused its efforts on Housing Benefit.
- 2.2 The transfer of the Housing Benefit fraud function to the DWP created both a risk and opportunity to the Council. With the administration of Housing Benefit and Council Tax Support being directly linked the Council had in effect been able to 'police' the two systems at the same time. With the removal of Housing Benefit and the investigation resource that was deployed with it, this had the potential to leave Council Tax Support and therefore Council Tax exposed to fraud with no identified resource to investigate or deter fraud.
- 2.3 The change also created an opportunity in releasing a team of experienced specialist staff, with good local knowledge, to both manage the ongoing risk within Council Tax Support and deliver capacity to expand their work into other areas both within the Council Tax and Business Rates system.

- 2.4 With the value of discounts and exemptions estimated at £30m and the risk of customer fraud high, agreement was reached with the support of the precepting authorities to fund the current team on the understanding that there would be a suitable return on investment.
- 2.5 The agreed business case set out a method of sharing the cost and projected savings in line with the value to each partner based on their level of precept.

2018/19 Outturn

- 2.6 The work programme for 2018/19 included activity aimed at addressing fraud and error within the Council Tax system (single person discount), Business Rate system (small business rate relief) and maximising the income to partner authorities through new homes bonus.

Table 1. Summary of revenue generated 2018/19

Projects	SBC
KIN – Destin SBR*	6,592
360 Call Credit	22,792
Charities	Nil
NHB	211,400
NFI	Nil
Penalties	Nil
Totals	240,784

*Destin Solutions work on behalf of the Kent Authorities checking business rates accounts that receive small business rates relief to check whether they run from more than one business address.

2019/20 Outturn (to date)

- 2.7 The focus in the current year has been on the new release of National Fraud Initiative data and small business rate relief accounts, whilst a new system is being implemented for the monitoring of Single Person Discounts.
- 2.8 The team have just finished working on the New Homes Bonus project. This has been a really worthwhile exercise for the team, with no additional costs apart from postage and a few credit checks being incurred. 160 properties were found to be occupied. The total amount of properties is multiplied by £1,400 to give the final results of the exercise amounting to savings of £224,000. Table 2 shows the results for 2019/20 up to 31 December 2019.

Table 2. Summary of revenue generated 2019/20 to date

Projects	SBC
NFI main data match HB and CTS	2,768
NFI – Council tax matches	4,000
KIN – Destin SBR	2,981
Kin – referrals non domestic rates	44,563
Other	19,717
Penalties	140
NHB	224,000
Totals	298,169

3 Proposals

3.1 That the report is noted

4 Alternative Options

4.1 The Council could decide to not have a fraud and compliance team and to leave any reviews of Council Tax and NNDR discounts and reviews to the Revenues team. This would not be recommended because reviews would be carried out more infrequently. The Fraud and Compliance team is trained to carry out investigations so has the experience to look in depth into cases where necessary.

5 Consultation Undertaken or Proposed

5.1 None.

6 Implications

Issue	Implications
Corporate Plan	Delivering the Council of tomorrow BV9 – Percentage of Council Tax collected BV10 – Percentage of non-domestic rates collected
Financial, Resource and Property	75% of funding for the cost of the team is provided by the major preceptors. It is possible that if the team did find savings that were higher than the running costs, funding may not be provided by the major preceptors in future years.
Legal, Statutory and Procurement	Local authorities are empowered to investigate Council Tax Support and associated discounts and exemptions.
Crime and Disorder	None
Environment and Sustainability	None
Health and Wellbeing	None
Risk Management and Health and Safety	The Fraud and Compliance team minimises the risk of fraud and error occurring within the revenues services. By carrying out reviews it reduces the likelihood of exemptions and discounts being incorrectly claimed. Therefore, if in the future we ceased to have this team there would be a risk of incorrectly claimed discounts increasing.
Equality and Diversity	None
Privacy and Data Protection	None

Audit Committee Meeting	
Meeting Date	21 January 2020
Report Title	Interim Internal Audit & Assurance Report 2019/20
Cabinet Member	Cllr Roger Truelove
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
Recommendations	1. To note progress against the 2019/20 Internal Audit & Assurance Plan and findings so far.

1 Purpose of Report and Executive Summary

- 1.1 The report provides to Members an update on progress so far towards completing the 2019/20 Internal Audit & Assurance Plan. It also provides the update information needed by Audit Standards including an assessment of available audit time, results of audit work and commentary on performance of the audit service.
- 1.2 Our results so far in 2019/20 have yielded positive assurance ratings. We continue to work well with officers in both our initial work and in subsequent follow up of our recommendations. There are no matters of broader concern we wish to bring to Members' attention.

2 Background

- 2.1 The report provides an update for Members on progress against the 2019/20 Internal Audit & Assurance Plan approved by this Committee earlier this year. The report also meets our duties under Public Sector Internal Audit Standard 2060 to report to Members on:
 - Our audit charter (see also other item on tonight's agenda),
 - The independence of internal audit,
 - Audit plan changes and progress against the plan,
 - Resource needs of the audit service,
 - Results of audit work so far,
 - Affirming conformance with the Standards and Code of Ethics, and
 - Details of risks taken by management that, in the Head of Audit Partnership's judgement, may be unacceptable to the authority.

- 2.2 We have made good progress through the plan so far. We will continue to adjust our plans according to the Council's risk profile and remain confident of delivering a robust audit opinion by year end.
- 2.3 We note good levels of delivery for officers acting to addressing audit recommendations.
- 2.4 We also report our continuing conformance with the Standards (including independence) and the Code of Ethics.

3 Proposals

- 3.1 To keep conformance with the Standards we must report progress periodically to Members. This report fulfils that duty and provides the opportunity for Members to review, comment on and question the progress we have made and the results we have reached.

4 Alternative Options

- 4.1 We do not propose any alternative action.

5 Consultation Undertaken or Proposed

- 5.1 We discuss results of audit work with responsible officers within the authority before issuing as final. We remain pleased to record to Members continuing strong levels of co-operation from officers who have accepted all recommendations made so far in 2019/20.
- 5.2 The report builds on Committee comments from previous similar reports at equivalent points in earlier years.

6 Implications

Issue	Implications
Corporate Plan	Internal audit and its findings provide assurance to Members on the effectiveness of the Council's governance. Good governance is necessary for successfully fulfilling the Corporate Plan.
Financial, Resource and Property	Continuing the audit and assurance plan is within already approved budgetary headings and so needs no new funding for implementation.
Legal and Statutory	Reporting to Members in his way contributes to fulfilling the Council's duties under the Local Audit & Accountability Act 2014.

Issue	Implications
Crime and Disorder	The report makes no recommendations that impact crime and disorder.
Environmental Sustainability	The report makes no recommendations that impact environmental sustainability.
Health and Wellbeing	The report makes no recommendations that impact health and well being.
Risk Management and Health and Safety	<p>We present this report for information only so it has no direct risk management implications.</p> <p>Audit Standard 2060 demands we report to Members any risks accepted by management that in our view may be unacceptable to the organisation. For example, this might include audit recommendations that management refuse to address.</p> <p>There are no risks we have identified in our work that we believe management have unreasonably accepted.</p> <p>The report makes no recommendations that impact health and safety.</p>
Equality and Diversity	The report makes no recommendations that impact equality and diversity.
Privacy and Data Protection	The audit service collects no data directly from the public. Any data we collect during our reviews we hold in line with the Council's applicable policies.

7 Appendices

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

- Appendix I: Interim Internal Audit & Assurance Report

8 Background Papers

None applicable.

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MID KENT AUDIT

Interim Internal Audit & Assurance Report

January 2020

Swale Borough Council



MID KENT AUDIT

Introduction

1. The Institute of Internal Audit gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our reporting:

2060 Reporting to Senior Management and the Board

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 and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

Audit Charter

3. This Committee approved our *Audit Charter* in September 2019 and it remains in place through the audit year.

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Independence of internal audit

4. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
5. Within Swale BC during 2019/20 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Recommendation Follow Up Results*.
8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Requirements

9. We reported in our plan presented to this Committee in March 2019 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

...we believe we have enough resource to deliver the 2019/20 plan
10. Since that plan we have had considerable changes in staffing, including losing two members of the team to other internal audit services in Kent. However, considering extra contractor support available to us through the Apex Contract managed by LB Croydon, new recruits to the team and people returning from maternity leave we remain content we have enough resource to deliver the plan.

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Audit Plan Progress

11. This Committee approved our *Annual Audit & Assurance Plan 2019/20* on 13 March 2019. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during May 2019 and expect completing enough to form our *Annual Opinion* by June 2020.
12. The table below shows progress in total number of days delivered against the plan (figures are up to end of December 2019, about 45% through the audit year).

Category	2019/20 Plan Days	Outturn at Interim	Days Remaining
2018/19 Assurance Projects	0	19	n/a
2019/20 Assurance Projects	319	118	201
Non project assurance work ¹	121	64	57
Unallocated contingency	45	19	26
Totals (19/20 Work Only)	485	201	284

13. Based on resources available to the partnership for the rest of the year we forecast delivery of around 263 further audit days. This creates a forecast total of 464, or 95% of planned days.
14. We detail the specifics, and results, of this progress further within this report.

¹ Non-assurance project work includes our work in the fields of Risk Management, Counter Fraud and Investigative Support, following up recommendations and annual audit planning.

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Results of Audit Work

15. The tables below summarise audit project findings and outturn up to the date of this report. Where there are material matters finished between report issue and committee meeting we will provide a verbal update. (* = days split between partners, SBC only shown).

Completed Assurance Projects Since Annual Report in June 2019

	Title	Days Spent	Report Issue	Assurance Rating	Notes
2018/19 Plan Projects Issued after 1 June 2019					
	Asset Management	15	Jul-19	Sound	Reported to Members July 2019
	Revenues & Benefits Compliance Team	9*	Jul-19	Sound	Reported to Members July 2019
	General Data Protection Regulations	6*	Jul-19	N/A	Reported to Members July 2019
I	Sittingbourne Town Centre	17	Jul-19	Sound	
II	Cyber Security	8*	Oct-19	Sound	
III	Licensing Compliance	25	Dec-19	Sound	
2019/20 Plan Projects Issued up to Report Date					
IV	Discretionary Housing Payments	11	Sep-19	Sound	
V	Recruitment	8*	Oct-19	Sound	
VI	Civil Parking Enforcement	10*	Dec-19	Sound	

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Assurance Projects Underway

Title	Days So Far	Expected Final Report	Notes / Stage
Declarations of Interest	12	Jan-20	Draft report issued
Health & Safety	29	Jan-20	Draft report issued
Planning Enforcement	12	Jan-20	Fieldwork complete
Social Media	7	Mar-20	Fieldwork underway
Council Tax Recovery & Write Offs	2	Mar-20	Planning
Home Improvement Grants	3	Mar-20	Planning
Budget Setting & Monitoring	1	Mar-20	Planning
Homelessness	1	Apr-20	Planning
Strategic Planning	1	Apr-20	Planning

Assurance Projects Yet to Begin But Scheduled

Title	Expected Start	Expected Report	Notes
Universal Credit	Quarter 3	Apr-20	
ICT Technical Support	Quarter 3	Apr-20	Joint with MBC & TWBC
Information Management	Quarter 4	Apr-20	Cross partnership
Emergency Planning	Quarter 4	May-20	
Network Security	Quarter 4	May-20	Cross partnership
Planning Administration	Quarter 4	May-20	Joint with MBC

We will continue to keep these projects under review because of our available resources and the changing risk position at the authority.

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Audit Project Summary Results

I: Sittingbourne Town Centre (July 2019)

16. Our opinion based on our audit work is that the Council has **SOUND** controls in place to manage its risks and support achievement of its objectives in delivering the Sittingbourne Town Centre Project.
19. The Sittingbourne Town Centre regeneration project has sound governance arrangements. These include a Project Board and Key Officer Group to ensure the Council keeps proper oversight. These groups receive progress reports and have access to effective specialist resources to help control delivery of project milestones.
20. Our review of financial controls for Site 6 showed compliance with the development funding agreement. We have identified some minor actions to strengthen governance, including updating group terms of reference.

Recommendation summary

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	0
Low (Priority 4)	2
Advisory	1

21. Both agreed actions were due for completion in the final months of 2019 and so form part of our currently underway follow up review.

II: Cyber Security (October 2019)

22. Following recent cyber-related attacks experienced by well-established organisations including Councils and the NHS, cyber security has become a high-profile risk at many organisations concerned about suffering a similar attack themselves.
23. The HMG Cyber Essentials framework has been developed by Government and industry to provide a clear statement of the basic controls that all organisations should implement to mitigate the risk from internet-based threats, within the context of the 10 Steps to Cyber Security. The Cyber Essentials scheme defines a set of controls which, when correctly implemented, will provide organisations with basic protection from the most prevalent forms of threats derived from the Internet. In particular, it

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focuses on threats which require low levels of attacker skill, and which are widely available online.

24. Risk management is a vital starting point for organisations to act to protect their information and data. However, given the nature of the threat, the government believes that action should begin with a core set of security controls which all organisations – large and small – should implement. However, it does not offer a solution to remove all cyber security risk; for example, it is not designed to address more advanced, targeted attacks and hence organisations facing these threats will need to implement additional measures as part of their security strategy.
25. There is a Cyber Essentials Assurance Framework that offers a mechanism for organisations to demonstrate to customers, investors, insurers and others that they have taken these essential precautions. The level one Cyber Essentials certification is awarded on the basis of a verified self-assessment. An organisation undertakes their own assessment of their implementation of the Cyber Essentials control themes via a questionnaire, which is approved by a senior executive such as the CEO. This questionnaire is then verified by an independent accredited Certification Body to assess whether an appropriate standard has been achieved, and certification can be awarded. The level two (Cyber Essentials Plus) certification requires an independent vulnerability assessment to validate the effectiveness of controls declared in the self-assessment questionnaire.
26. Please note this audit was carried out based on the cyber essential principles.
27. Our opinion based on our audit work is that the IT service has **SOUND** controls in place to manage its risks and support achievement of its objectives.

Recommendation summary

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	3
Low (Priority 4)	0
Advisory	0

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III: Licensing Compliance (December 2019)

28. Our opinion based on our audit work is that the Licensing & Resilience service has **Sound** controls in place to manage its risks and support achievement of its objectives.
29. Our review found the Council has comprehensive licensing policies in place which provide a sound framework for enforcement activities. Compliance inspections are mainly undertaken in response to complaints. However, inspections are carried out consistently using a templated approach. Our testing also confirmed that enforcement action is taken in accordance with the enforcement strategy and enforcement action is duly authorised.
30. However, our review also established that the introduction of a risk-based inspection assessments and programme in May 2018 is not yet fully embedded and inspections due are not always completed on time. Improvements to inspection monitoring are needed to ensure timely completion and prompt follow up work. A plan for random vehicle inspections also needs to be established and monitored.
31. We also established improvements are needed for expired and surrendered licenses to ensure they are promptly identified and evidenced on Uniform. We also make recommendations to improve the monitoring of penalty points and record keeping.

Recommendation summary

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	3
Low (Priority 4)	5
Advisory	1

32. This audit engagement took some considerable time to finalise such that 5 of the 8 agreed actions were already complete when we issued the final report. The Council plans to complete the remaining actions over the next couple of months. We will review progress as part of our routine follow up exercise.

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IV: Discretionary Housing Payments (September 2019)

33. Our opinion based on our audit work is that the service has **Sound** controls in place to manage its risks and support achievement of its objectives relating to the processing of Discretionary Housing Payments (DHP).
34. During the 2018-19 financial year a total of 460 DHP claims were processed for Swale Borough Council. A further 158 claims have been processed for the 2019-20 financial year to date (July 2019).
35. We found up to date guidance for staff and information regarding DHP entitlements on the Council's website. Our testing for a sample of cases returned positive results which confirmed that all claimants met the criteria for being awarded a DHP with the relevant supporting documentation retained.
36. Our work identified a couple of area to address; the DHP application form does not contain a privacy statement as required under the Data Protection Act 2018 and the control to check claims exceeding £1,500 could be strengthened to evidence these approvals.

Recommendation summary

Critical Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	1
Low (Priority 4)	1
Advisory	0

37. Both agreed actions were due for completion in the final months of 2019 and so form part of our currently underway follow up review.

V: Recruitment (October 2019)

38. Our opinion based on our audit work is that there are **Sound** controls in place to manage risks and support achievement of objectives in relation to Recruitment.
39. We found the majority of the council's controls, to mitigate the risk of being unable to recruit staff with the right skills to deliver priorities, are well designed and fully operating.

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40. Our testing established the service maintains a workforce strategy at each council and joint recruitment and selection policy/procedures, which are regularly reviewed. These key documents provide a framework upon which the recruitment process is based.
41. Recruitment roles are clearly defined and both Council's offer extensive staff rewards, which are continuously reviewed for appropriateness and adequacy.
42. Our testing of the recruitment process established compliance with procedures in all areas apart from training and retention of interview notes. Not all interview panels have an officer who has received recruitment and selection training. It is also unclear if they have instead satisfied the training requirement based on their experience.
43. Evidence of interview notes were not always saved, without these we could not establish if the selection process was completely fair and transparent. We have made recommendations to address these areas.

Recommendation summary

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	1
Low (Priority 4)	1
Advisory	0

44. The Council plans to carry out both agreed actions at year end. We will follow up on action early in the new financial year.

VI: Civil Parking Enforcement (December 2019)

45. Our opinion based on our audit work is that the Council has **SOUND** controls in place to manage its risks and support achievement of its objectives. We provide the definitions of our assurance ratings at appendix II.
46. We found the majority of controls mitigating the risks surrounding parking enforcement are well designed and fully operating for both Maidstone and Swale.
47. The service is undertaking all functions as specified by the agency agreement with Kent County Council to provide on-street enforcement and the contract with Apcoa ensures adequate coverage. Our testing also confirmed that parking enforcement activities comply with the Traffic Management Act 2004.

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48. There is a known compatibility issue between the cash receipting system at Maidstone and the parking system which increases the risk of enforcement action being taken when PCNs have been paid. The service has implemented reconciliation controls to promptly identify errors between the systems but there are no such controls in place at Swale. We recommend controls are adopted at Swale to ensure all income due is received and accounted for.
49. We have also identified some actions that will improve existing arrangements. These include implementing procedure notes to support processes and reviewing workflow functionality to ensure all correspondence is handled.

Recommendation summary

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	2
Low (Priority 4)	4
Advisory	0

50. The agreed actions fall due largely in the early months of 2020 for conclusion by 30 April. We will follow up the actions when they fall due.

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Agreed Actions Follow Up Results

51. Our approach to agreed actions is that we follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions). In total, we summarise in the table below the current position on following up agreed actions:

Project	Total	High Priority	Medium Priority	Low Priority
Actions brought into 2019/20	16	2	7	7
New actions agreed in 2019/20	37	0	20	17
Total Actions Agreed	53	2	27	24
Fulfilled by 31 December 2019	27	2	12	13
Actions cfwd past 31 December	26	0	15	11
Not Yet Due	19	0	9	10
Delayed but no extra risk	7	0	6	1
Delayed with risk exposure	0	0	0	0

52. The table below shows distribution of outstanding actions across the Council (filtered to show only those relevant to Swale). Note the numbers will not tally with the table above because this includes actions raised in draft reports and therefore not yet final.

	Mid Kent Audit Universe				
	Ashford Borough Council	Maidstone Borough Council	Swale Borough Council	Tunbridge Wells Borough Council	Shared Services
Accounting & Finance	-	-	-	-	-
Communications	-	-	-	-	-
Community Safety	-	-	3	-	-
Corporate	-	-	-	-	8
Culture & Economy	-	-	3	-	-
Democracy	-	-	-	-	-
Environment	-	-	-	-	-
Environmental Health	-	-	-	-	-
Estate Management	-	-	1	-	-
Housing & Landlord	-	-	-	-	-
Human Resources	-	-	17	-	9
Information Technology	-	-	-	-	3
Parking	-	-	-	-	6
Planning	-	-	2	-	-
Revenues & Benefits	-	-	2	-	-
Parish Councils	-	-	-	-	-

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Other Audit Service Work

Risk Management Update

53. We will present a full update on risk management at the next meeting of this Committee.

Counter Fraud Update

54. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

Investigations

55. We have completed one full investigation and helped with another matter drawn to our attention by management. There are no findings from investigations that we wish to draw to Members attention, save to note the importance of ensuring swift and thorough work to resolve allegations as they arise. To that end, we thank Council officers for helping us to report in good time.

Whistleblowing

56. The Council's whistleblowing policy names internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour.
57. We have so far had no matters raised with us through the Whistleblowing Policy this year.

National Fraud Initiative

58. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.

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59. We have looked into matches from non-revenues datasets. The Cabinet Office assigns a 'risk' rating to each match on a percentage scale. Our approach is to review all matches in sets with less than 20 to examine, and to look at first to matches rated over 50% risk in larger data sets. The Cabinet Office does not expect authorities to look into every match.

60. The table below sets out results so far for the data sets within Mid Kent Audit's scope:

Dataset	Matches to investigate	Completed	Frauds	Errors	Value
Creditors	62	62	0	0	0
Payroll	14	13	0	0	0
Housing Waiting List	66	62	0	9	£29,160
Procurement	16	16	0	0	0
Totals	158	153	0	9	£29,160

61. For the Housing Waiting List data set, the NFI exercise has identified nine people who were on the housing waiting list inappropriately (for instance because they were also on the waiting list at another authority). The Cabinet Office estimates a saving to authorities of £3,240 for each person identified as ineligible and so removed from the housing waiting list.

62. We are working towards completing the investigations by the end of the financial year. The Cabinet Office plans to issue a new data set in January 2021.

Other Audit and Advice Work

63. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance as part of the Wider Management Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers.

64. We have also led and contributed to a series of Member briefings at the Council on issues of governance interest. We are keen to hear from Members on any other areas of interest which may form future briefing sessions.

65. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

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Code of Ethics and Standards Compliance

Code of Ethics

66. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. Also the Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life's *Seven Principles of Public Life* (the "Nolan Principles").
67. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.
68. We can report to Members we remain in conformance with the Code.

Public Sector Internal Audit Standards & External Quality Assessment

69. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members.
70. As described in previous updates, 2019/20 is the fifth year since we underwent an external independent assessment and so we require a fresh review. We successfully put the assessment out to tender in December 2019. The winning bidder, CIPFA, will begin their review in February and report to Members in late March.
71. Based on our self-assessments we continue to work in full conformance with the Standards.

Acknowledgements

72. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
73. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
74. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex: Assurance & Priority level definitions

Assurance Ratings 2019/20 (Unchanged from 2014/15)

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

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Recommendation Ratings 2019/20 (unchanged from 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

Audit Progress Report and Sector Update

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Introduction



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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 Council.

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 January 2020

2018/19 Audit

We have completed our audit of the Council's 2018/19 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure, was issued on 31 July 2019.

Our Annual Audit Letter summarising the outcomes from our 2018/19 audit is included as a separate item on today's agenda.

2019/20 Audit

Audit planning

We will begin our planning for the 2019/20 audit in January 2020. Our work will include updating our understanding of the Council's control environment and financial systems, including walkthrough testing to confirm that the design of systems is in accordance with our understanding.

We will also continue to:

- hold discussions with management to inform our risk assessment;
- review minutes and papers from key meetings; and
- review relevant sector information to ensure that we capture any emerging issues and consider these as part of audit planning.

Our 2019/20 Audit Plan will be presented to the March 2020 Audit Committee.

Accounts workshops for local government

In 2019/20 Grant Thornton will again be running technical workshops for the preparers of accounts at local authorities.

Invitations will be sent to the Council's finance team.

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions.

The Council's 2018/19 Housing Benefit Subsidy claim was certified on 9 December 2019. Our report on the detailed outcomes from our work will be presented to the March 2020 Audit Committee.

Audit Fees

During 2017 PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time there have been a number of developments within the accounting and audit profession. Across all sectors and firms the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 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 are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the scale fee set by PSAA Limited, before communicating fully with the Audit Committee.

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

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Our fee letter confirms the audit fee for 2019/20.</p>	April 2019	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p>	March 2020	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report summarises the outcomes from our work on the financial statements and to support our value for money conclusion.</p>	July 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statements, annual governance statement and value for money conclusion.</p>	July 2020	Not yet due
<p>Annual Audit Letter</p> <p>The annual audit letter communicates the key issues arising from our 2019/20 work.</p>	September 2020	Not yet due

Sector Update

Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Public
Sector

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 NHS 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 local government section on the Grant Thornton website at <https://www.grantthornton.co.uk/en/industries/public-sector/local-government/>

MHCLG – Independent probe into local government audit

In July 2019 the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

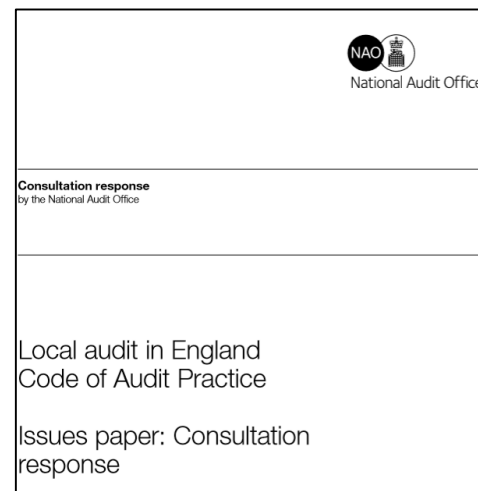
Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- 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.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation closed on 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

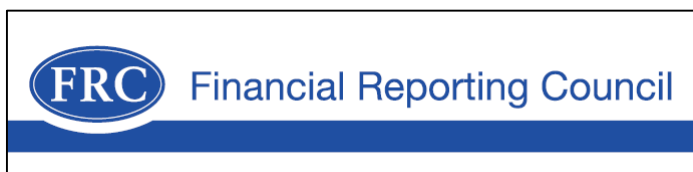
The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.



What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.grantthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14, and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>



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The Annual Audit Letter for Swale Borough Council

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Year ended 31 March 2019
October 2019



Agenda Item 9

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 29 July 2019.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,704,000 which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2019. We will report the results of this work to the Audit Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,704,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £85,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the other information published with the financial statements (including the Annual Governance Statement and the Narrative Report) to check that this is consistent with our understanding of the Council

and with the financial statements on which we give our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings The Council regularly revalues its land and building assets. The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none">• reviewed management's processes and assumptions for the calculation of the estimate, including review of the instructions issued to the Council's external valuer;• considered the competence, expertise and objectivity of the external valuer;• reviewed the external valuer's approach and assumptions; and• tested that revaluations were correctly entered into the Council's accounting records.	<p>The valuation for Faversham Swimming Pool at 31 March 2019 included an adjustment following the assignment of a lease. We concluded that it was more appropriate for the valuation of the asset to exclude this adjustment. The impact was to increase the value of the asset by £4,155,000. The accounts were amended.</p> <p>Our audit work did not identify any other issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> • identified and evaluated the controls put in place to ensure that the pension fund net liability was not materially misstated; • evaluated the competence, expertise and objectivity of the actuary who carried out the pension fund valuation; • performed work to confirm the reasonableness of the assumptions made by the actuary; • checked that the information on pensions included in the financial statements was consistent with the actuary's report; and • obtained assurance from the auditor of Kent County Council regarding the operation of controls in the pension scheme it administers on behalf of the Council. 	<p>In December 2018 the Court of Appeal ruled that transitional protections in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling had implications for other pension schemes, including the LGPS. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement. Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council.</p> <p>The Council's actuary estimated that the impact of the ruling was to increase the Council's overall pension liabilities at 31 March 2019 by £1,000,000. Management concluded that this was not material for the 2018/19 accounts and therefore no amendment was made to the financial statements. The issue will be considered for future years' actuarial valuations.</p> <p>We concluded that the issue was not material for our opinion.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2019.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29 July 2019. These included the key findings arising from our work on significant risks. We did not identify any other errors which required an adjustment to the Council's primary financial statements.

The Council's accounts were again prepared to a high standard and supported by very strong working paper trails.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with our knowledge and with the Council's financial statements.

Whole of Government Accounts (WGA)

We carried out work in accordance with instructions issued by the NAO. We issued an assurance statement confirming that a review of the Council's data collection tool was not required as the values in the financial statements were below the specified threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The Council continues to face significant financial pressures associated with reductions in government funding.</p> <p>A strong financial planning framework is key to the Council maintaining a sustainable financial position and delivering its key objectives.</p> <p>We reviewed the Council's medium term financial plan and the supporting information trails.</p>	<p>The Council has a history of sound financial management. In recent years it has been proactive in responding to the implications of sustained reductions in government funding, both by making financial savings and developing alternative sources of income. It has also achieved regular annual underspends against revenue budget, including an underspend of £931,000 for 2018/19.</p> <p>The Council is aware that there are significant uncertainties going forward. Historically it has benefited from significant growth in business rates income, including from membership of the Kent business rates pilot in 2018/19, but the future framework for the localisation of business rates is unclear. There are also uncertainties over the impact on local authorities of the Fair Funding review. The level of income the Council receives from New Homes Bonus funding is reducing and the scope for further internal savings may be limited. It also has continuing cost pressures in a number of service areas. The Council made a contribution of £361,000 from reserves to support the 2019/20 budget.</p> <p>Allowing for these uncertainties the Council continues to have a robust financial planning framework. The Medium Term Financial Plan is updated annually and closely aligned with the budget-setting process. A review of supporting trails shows that it is based on a comprehensive consideration of the relevant income and expenditure streams. The Council has made contributions to reserves, including the business rates volatility reserve, to help deal with future uncertainty.</p> <p>Going forward the Council will need to actively manage these financial pressures to support the continued delivery of services and its strategic objectives. However, it has a credible planning framework to support continuing to set balanced budgets into the medium term.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The government is in continuing negotiations with the EU over Brexit, and there is uncertainty over the future impact for public services and the wider economy.</p> <p>We considered the action taken by the Council, including the wider preparations across local authorities in Kent, to mitigate any risks around Brexit.</p>	<p>At the time of our Audit Plan the anticipated date of leaving the European Union was 29 March 2019. The anticipated date of leaving is now 31 October 2019.</p> <p>For risk assessment purposes the Council and other authorities locally are focused on the risks associated with a “Day one” No Deal Brexit, and the need to continue delivering services to residents with minimal disruption. Many of these risks are being addressed at a Kent-wide level through the Kent Resilience Forum (KRF). The KRF produced a Threat and Risk Assessment during 2018/19, and this risk assessment continues to be updated. Currently the most significant risks relate to cross-channel disruption and transport issues, and for these a number of multi-agency contingency plans are in place, e.g. Operations Fennel, Brock and Perch, which continue to be refined in co-ordination with government departments. The Council received an update on the current preparations by KRF in a presentation to informal Cabinet in June 2019.</p> <p>As a participant Swale has access to the planning resources of the KRF, and the Council was receiving regular briefings in the run-up to 29 March 2019. To support the KRF risk assessment process during 2018/19 the Council has also completed a local Community Impact Assessment, supported by a Brexit Action Plan. This plan is currently being updated in preparation for the new departure date at the end of October.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	October 2019

Fees

	Planned fees £	Actual fees £	2016/17 fees £
Statutory audit	46,769	51,169	60,739
Total fees	46,769	51,169	60,739

Audit fee variation

As outlined in our audit plan, the planned fee of £46,769 for 2018/19, which is the scale fee published by Public Sector Audit Appointments (PSAA), was based on the assumption that the scope of our audit did not significantly change. However, for 2018/19 there are a number of areas where we have been required to perform additional work over and above that originally envisaged in our audit plan. These are set out in the following table. The proposed fee variation is subject to approval by PSAA.

Area	Reason	Fee proposed £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling in June 2019. As part of our audit we have been required to review the basis of the revised actuarial assessment and the impact on the financial statements, and address any audit reporting considerations.	1,600
Pensions – IAS 19	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on IAS 19 issues across local government audits. We have increased the scope and coverage of our work on IAS 19 issues this year in response to these findings.	1,200
PPE Valuation – work of experts	The Financial Reporting Council has concluded that improvements are required in the scope and coverage of work by audit firms on PPE valuation issues across the sector. We have increased the scope and coverage of our work on PPE valuation issues this year in response to these findings.	1,600
Total		4,400

A. Reports issued and fees (continued)

Fees for non-audit services

	Planned £	Actual fees £	2017/18 fees £
Audit related services	10,000	TBC	23,626
- Certification of Housing Benefit Subsidy claim (from 2018/19)			
Non-Audit related services			
- Name			
Total fees for non-audit services	10,000	TBC	23,626

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.



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