



AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 30 September 2020

Time: 7.00pm

Venue: Virtual Meeting Via Skype*

Membership:

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

Quorum = 3

Pages

Information for the Public

*Members of the press and public can listen to this meeting live. Details of how to join the meeting will be added the website after 4pm on Tuesday 29 September 2020.

Privacy Statement

Swale Borough Council (SBC) is committed to protecting the privacy and security of your personal information. As data controller we ensure that processing is carried out in accordance with the Data Protection Act 2018 and the General Data Protection Regulations. In calling to join the meeting your telephone number may be viewed solely by those Members and Officers in attendance at the Skype meeting and will not be shared further. No other identifying information will be made available through your joining to the meeting. In joining the meeting you are providing the Council with your consent to process your telephone number for the duration of the meeting. Your telephone number will not be retained after the meeting is finished. If you have any concerns or questions about how we look after your personal information or your rights as an individual under the Regulations, please contact the Data Protection Officer by email at dataprotectionofficer@swale.gov.uk or by calling 01795 417179.

1. Apologies for Absence and Confirmation of Substitutes
2. Minutes

To approve the [Minutes](#) of the Meeting held on 11 March 2020 (Minute Nos. 623 - 629) as a correct record, subject to the inclusion of Mr Trevor Greenlee and Mr Darren Wells (Grant Thornton) as being in attendance.

3. Declarations of Interest

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

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

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

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

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

Part B reports for decision by the Committee

4.	Annual Internal Audit Report & Opinion 2019/20	3 - 54
5.	Updated Internal Audit & Assurance Plan 2020/21	55 - 62
6.	Audit Committee Annual Report 2019/20	63 - 72
7.	Annual Treasury Management Review for 2019/20	73 - 84
8.	Audit Committee Risk Management Update	85 - 100
9.	External Audit Plan 2019/20: Covid 19	101 - 104
10.	External Audit Progress Report	105 - 128

Issued on Monday, 21 September 2020

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

Audit Committee Meeting	Agenda Item 4
Meeting Date	30 September 2020
Report Title	Annual Internal Audit Report & Opinion 2019/20
Cabinet Member	Cllr Roger Truelove, Leader of Swale Borough Council
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Rich Clarke – Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. The Committee notes the Head of Audit Partnership’s opinion. 2. The Committee notes the work underlying the opinion and the Head of Audit Partnership’s assurance of its completion with sufficient independence and conformance with appropriate Standards. 3. The Committee notes the conclusion of CIPFA’s External Quality Assessment of Mid Kent Audit that the Partnership <i>Fully Conforms</i> with Standards.

1 Purpose of Report and Executive Summary

- 1.1 This report meets the Head of Internal Audit annual reporting requirements mandated by the Public Sector Internal Audit Standards (the “Standards”). The report includes the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. This opinion informs the Annual Governance Statement for 2019/20.
- 1.2 The Standards, in particular Standard 2450: Overall Opinions, direct that the annual report must include:
- The annual internal audit opinion,
 - A summary of work completed that supports the opinion, and
 - A statement on conformance with Standards.

- 1.3 2019/20 also marks five years since the audit partnership last received an External Quality Assessment. Standard 1312 directs that “*external assessments must be conducted at least once every five years by a qualified, independent assessor*”.
- 1.4 The report also includes the outcome of that external assessment, completed by CIPFA earlier this year. It concludes that the audit partnership **Fully Conforms** with Standards. We believe this put the Audit Partnership in the unique position of receiving perfect scores from both major professional institutes with interest in local government internal audit; maintaining the ‘fully conforms’ level from the Institute of Internal Audit’s 2015 review.

2 Background

- 2.1 Internal audit is a required service under Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit, under that regulation is:

“... undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance”.

- 2.2 As those charged with overseeing governance, the Terms of Reference for this Audit & Governance Committee ask that it:

“... consider the [internal audit] annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council’s corporate governance arrangements.”

- 2.3 The overall scope of the Council’s audit service – which remains delivered as part of a four way partnership with Maidstone, Swale and Ashford – is set out in the Audit Charter and Annual Plan. This Committee approved the Plan for 2019/20 in April 2019 and received an interim progress update in December 2019.
- 2.4 We have completed the work set out in the plan, subject to the modifications as noted in the report, in full conformance with the Standards. We have also been able to operate with sufficient independence, free from any undue influence of either officers or Members.

3 Proposal

- 3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in operation during 2019/20. Further, he is satisfied the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, he is satisfied the Council’s risk management processes are effective. We ask the Committee to note these opinions.

- 3.2 Please see appendix I for the full Annual Report for 2019/20. This report includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.
- 3.3 As Appendix II we include the full report of CIPFA’s external quality assessment. CIPFA conducted the assessment in line with the overall parameters discussed and agreed with this Committee in the 2019/20 Annual Plan and Interim Update.

4 Alternative Options

- 4.1 We present the opinion and associated work for noting rather than decision.

5 Consultation Undertaken or Proposed

- 5.1 We consult on and agree with relevant Heads of Service before finalising all findings and recommendations arising from individual audit engagements. The headline messages in our report are as discussed with the s151 Officer across the year and have been communicated to help preparation of the Annual Governance Statement.
- 5.2 CIPFA issued a Member survey as part of their External Quality Assessment and the assessor also met this Committee’s Chairman. The report at Appendix II includes the results of that survey.

6 Implications

Issue	Implications
Corporate Plan	Internal Audit’s work supports all Council activities and the wider Corporate Plan in assisting the governance around its delivery.
Financial, and Property	The work programme set out was completed within agreed resources.
Legal and Statutory	The Council is required by Regulation to operate an internal audit service in accordance with proper standards. In particular, the external quality assessment maintains adherence to this obligation.
Crime & Disorder	No direct implications.
Environmental Sustainability	No direct implications.
Health/Wellbeing	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council’s risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within the risk management process.

Issue	Implications
Equality/Diversity	No direct implications.
Privacy and Data Protection	We collect and store information in the course of our audit work examining areas of the Council. We use that information in accordance with our collaboration agreement which, in turn, is in accordance with applicable laws and regulations.

7 Appendices

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

- Appendix I: Internal Audit Annual Report 2019/20
- Appendix II: CIPFA: External Quality Assessment of Conformance to the Public Sector Internal Audit Standards – Mid Kent Audit Partnership (Final Report).

8 Background Papers

Full reports which inform the audit engagements summarised in this annual report are available on request.

MID KENT AUDIT

Annual Internal Audit Report and Opinion 2019/20

**September 2020
Swale Borough Council**



MID KENT AUDIT

Introduction

1. The IIA 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 annual reporting:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence of internal audit

3. 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.
4. 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.
5. I confirm we have worked with full independence as per our Audit Charter and Standard 1100. We have included the current Charter as an Annex to this report.

MID KENT AUDIT

The Impact of Covid-19

6. As soon as the Covid Emergency hit in Mid-March we activated our part of the emergency plan. This essentially recognised audit as a 'back office' service. We suspended our audit plan save for work sought specifically by officers and instead made our team available for redeployment across the four partner authorities. I'm pleased to report the audit team was in high demand: we have supported the authorities with more than 300 days' redeployed work, helping support community hubs and manage grants to local businesses.

Effect on 2019/20 Audit Plan

7. At the Mid-March point we suspended work on the audit plans, they were some way short of completion. We would normally plan a reasonable chunk of work in the final quarter to allow for full-year coverage of key systems. However a disrupted year with vacancies and secondments meant we had more than usual outstanding. We had a plan to complete the remaining work, including confirming a large order with our main contract audit supplier that we had to postpone when they placed their public audit staff on furlough following a collapse in demand across the country.
8. The audit team began to return from late May onwards. At this point we began to think how we could reconfigure the remaining work to produce enough quantity and quality for a robust year end opinion.
9. The plan we developed included some temporary changes to our audit approach, which we felt was a better way of preserving audit coverage rather than dropping individual engagements. However we have elected to remove the following:
 - S20-AR06: Emergency Planning – We were content that the coronavirus pandemic response provides us with assurance on the Council's emergency planning.
 - X20-AR01: Information Management – Cancelled because of the assurance we gained through participation in the Council's information governance groups.
 - X20-AR02: Network Security – We received a report from external specialists in October 2019 and felt repeating the work this spring was too soon. We have this as an area to address in the 2020/21 plan.

MID KENT AUDIT

- X20-AR07: Planning Support – Cancelled as this was a lower risk engagement and also in recognition of the increased burden on the service from its own redeployments.
 - X20-AR09: IT Project Management – Postponed to 2020/21 to ease pressure on Mid Kent ICT. We will revisit this work later in the year with specialist support.
10. We made the changes to our audit plan and approach after discussion and with the support of the Council's s151 Officer. We also shared details with the Chair and Vice Chair of this Committee in an email on 19 June.
11. The two key temporary changes we have made to our service are:
- Assurance Ratings – Condensing over 100 hours work into a 15-20 page report is challenge enough, but further summarising in a single word (e.g. "Sound") can lead inevitably to extended discussions between auditors and officers. With officer time at a premium we decided to focus instead on the narrative conclusion as a summary, and our recommendations for improvement. Therefore engagements completed later in the year have "N/A" as an assurance rating, though we still include the full executive summary in this report.
 - Risk Focus – In planning our work we are always responsive to officer needs to help shape the focus of our work to where we can deliver improvement. However, with reduced timescales, we have decided to focus on only the controls that present the highest risk using work programmes with a less tailored, more generic approach. This means the audit, temporarily, becomes more 'tick box' but does allow us to better support the overall opinion. Where there are topics of lower risk highlighted, we may return to them as part of next year's plan.
12. By working in this way we have been able to conclude the audit plan sufficiently to support the Head of Internal Audit's Opinion.

2020/21 Plan

13. We presented our [2020/21 audit plan](#) to Members on 11 March based on a then-current view of the risks faced by the authority. Clearly since then the risk landscape has changed substantially. We must also reflect our reduced capacity given the extended overhang of 2019/20 plan completion arising from staff redeployment.
14. We present a revised plan for Members elsewhere on this evening's agenda.

Head of Internal Audit Opinion

Scope and time period

15. I provide this opinion to Swale Borough Council (the Council) to include in its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2020.

Scope limits

16. The role of internal audit need not cover only assurance and may extend towards consultancy, advice and strategic support. We have agreed with the Committee the overall scope of our work in our [Internal Audit Charter](#) and the specific scope of our work this year in our approved [Internal Audit & Assurance Plan 2019/20](#).
17. However our audit plan cannot address all risks across the Council and represents our best use of inevitably limited capacity. In approving the plan, the Committee recognised this limit. Beyond this general disclaimer, I have no specific limits of our scope to report to the Committee.

Consideration of work completed and reliance on others

18. I have drawn my opinion from the work completed during the year. I first set out the work in the plan approved by Members on 13 March 2019 and later developed it in line with emerging risks and priorities. I particularly ask that Members note the adjustments set out above following on from the Covid-19 pandemic. I set out in this report the extent and findings from our work in greater detail.
19. In completing my work I have placed no specific reliance on external sources.

Information supporting the opinion

20. The rest of this report summarises the work completed in delivering the internal audit plan through 2019/20.
21. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within our work programme. For risks not directly examined I am satisfied an assurance approach exists to provide reasonable assurance on effective management.

MID KENT AUDIT

Risk and control

22. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
23. The Council has described key parts of its internal control and risk management within the Local Code of Governance and Risk Management Framework.
24. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.
25. In completing our work we have considered the control environment and objectives in place at the Council.

Conformance with standards

26. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.
27. During 2019/20, as the Standards demand, we undertook an external quality assessment. After a competitive procurement we commissioned an external assessor from the Chartered Institute of Public Finance and Accountancy (CIPFA) to report on our conformance with the Standards and the quality of the service more generally.
28. The assessor concluded that Mid Kent Audit works in full conformance with the Standards. We include the full report as an appendix and summarise its findings later in this report.
29. We also describe later in this report our efforts towards continuing improvement and the results of our Quality and Improvement work.

MID KENT AUDIT

Overall conclusion

Internal Control

30. I am satisfied that during the year ended 31 March 2020 the Council managed its internal controls to offer sound assurance on control effectiveness.

Governance

31. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2020 comply in all material respects with guidance on proper practices¹.

Risk Management

32. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2020 are effective and provide sound assurance.

Other Matters

33. I have no other matters to report as part of my opinion.



Rich Clarke CPFA ACFS
Head of Audit Partnership

11 September 2020

¹ "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016).

MID KENT AUDIT

Internal Control

34. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
35. We gain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan.

Swale Audit Plan Work 2019/20

36. This Committee approved our [Internal 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 April 2019 and continued working through to March 2020. After a period of suspension due to the Covid-19 pandemic we resumed work in May and concluded in July 2020.
37. The table below shows progress in total number of days delivered against the original plan, and the revisions we made to account for staff redeployment.

Category	2019/20 Original Plan	2019/20 Revised Plan	2019/20 Outturn
2019/20 Engagements	319	283	265
Non-Project Assurance Work	121	95	89
Unallocated Contingency	45	35	42
Total	485	413	396
Concluding 2018/19 work	0	0	25

38. Our final delivery was 396 audit days. This represents, accounting for revisions and changes to approach and risk, approximately 96% completion of the plan.
39. In our original plan we detailed 28 audit potential engagements, 13 High and 15 Medium priority. Our aim was to complete all the High priority engagements and half of the Medium priority engagements. We have actually completed 8/13 High Priority and 9/15 Medium priority (the 18/19 Network security work spanned two years).
40. Taking into account the broader assurance sources described in this report, I am satisfied this provides sufficient evidence to support a robust year end opinion.
41. We detail the specifics, and results, of this progress further in this report.

MID KENT AUDIT

Results of Audit Work

42. The tables below summarise audit engagement findings up to the date of this report. Where there are material matters finished before the committee meeting we will provide a verbal update. (* = Shared service involving the Council).

Completed Assurance Engagements

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
2018/19 Assurance Engagements Completed After 1 April 2019					
	Absence Management*	6 x Med , 3 x Low	Apr-19	Sound	Reported to Members in July 2019. Not repeated in this report.
	Asset Management	1 x Med , 1 x Low	Jul-19	Sound	
	Revenues & Benefits Compliance Team*	3 x Med	Jul-19	Sound	
	General Data Protection Regulations*	None	Jul-19	N/A	
	Sittingbourne Town Centre	2 x Low	Jul-19	Sound	Reported to Members in January 2020. Not repeated in this report.
	Cyber Security*	3 x Med	Oct-19	Sound	
	Licensing Compliance	3 x Med , 5 x Low	Dec-19	Sound	
Planned 2019/20 Assurance Engagements Completed					
I	Discretionary Housing Payments	1 x Med , 1 x Low	Sep-19	Sound	Reported to Members in January 2020. Included again in this report to give full picture of 2019/20 work.
II	Recruitment*	1 x Med , 1 x Low	Nov-19	Sound	
III	Civil Parking Enforcement*	2 x Med , 4 x Low	Dec-19	Sound	
IV	Declarations Of Interest	2 x High , 4 x Med	Jan-20	[see note]	Split assurance rating. For Members' declarations: Sound . For Officers' declarations: Weak .
V	Planning Enforcement	2 x Med	Feb-20	Sound	
VI	Home Improvement Grants	None	Mar-20	Sound	
VII	Social Media	3 x Med , 3 x Low	Jun-20	Sound	

MID KENT AUDIT

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
VIII	ICT Technical Support*	4 x Low	Jul-20	N/A	
IX	Homelessness	3 x Low	Sep-20	N/A	
X	Development Management: Majors	2 x Low	Sep-20	N/A	
XI	Property Income	None	Sep-20	N/A	
	Member Development	[to be confirmed]	Sep-20	Draft	Final Reports expected by end of September. We will report summary findings to Members in our interim report and give a verbal update at the meeting of any significant issues.
	Budget Monitoring		Sep-20	Draft	
	Health & Safety		Sep-20	Draft	
	Council Tax Recovery & Write-Offs		Sep-20	Draft	
	Procurement		Sep-20	Draft	

Assurance Engagements Removed from 2019/20 Plan

Title	Rationale
(1) Emergency Planning, (2) Information Management, (3) Network Security, (4) IT Project Management, (5) Planning Support	As set out in <i>Impact of Covid-19</i> section above.
(6) Economic Development, (7) Universal Credit, (8) Cemeteries, (9) Developer Income, (10) IT Asset Management, (11) IT Backup & Recovery, (12) Residents' Parking	Medium Priority projects not taken up in 2019/20.

MID KENT AUDIT

I: Discretionary Housing Payments (September 2019)

43. 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).
44. 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).
45. 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.
46. Our work identified some areas 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.

II: Recruitment (October 2019)

47. 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.
48. 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.
49. Recruitment roles are clearly defined and both Council's offer extensive staff rewards, which are continuously reviewed for appropriateness and adequacy.
50. 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.
51. 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.

MID KENT AUDIT

III: Civil Parking Enforcement (December 2019)

52. 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.
53. We found the majority of controls mitigating the risks surrounding parking enforcement are well designed and fully operating for both Maidstone and Swale.
54. 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.
55. 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.
56. 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.

IV: Declarations Of Interest (Jan 20)

57. We found that officers of the Council do not complete regular declarations as demanded by the Code of Conduct. In part this stems from a lack of clarity in guidance, but more significantly we found the Council does not have in place any significant controls to check or review officer declarations. We also found no procedures in place to use declaration information to support governance. This absence exposes the Council to risk of unaddressed conflicts.
58. We found there is a sound process in place to administer Member declarations. We found all Members have declared interests as demanded by the Localism Act and the Code of Conduct. Although not all Members returned declarations on time, we found good levels of compliance with duties to declare relevant interests at meetings.

MID KENT AUDIT

V: Planning Enforcement (Feb 20)

59. Any contravention of the limitations on, or conditions belonging to, permitted development rights, under the Town and Country Planning (General Permitted Development) (England) Order 2015, constitutes a breach of planning control against which enforcement action may be taken.
60. The Council provides a sufficient level of information on its planning enforcement process however, our work highlights the need to reflect the correct version of the 'Service Charter for Planning Enforcement' on the Council's website and also review this document.
61. Our testing found that the procedures for managing planning enforcement complaints are of sound design with the enforcement watch-list facilitating oversight of the overall caseload by the Senior Planning Enforcement Investigator. Testing confirmed that the procedures are being followed in practice with minor oversight from some supporting documentation which was corrected during the audit.

VI: Home Improvement Grants (Mar 20)

62. The Service is currently in a strong financial position with substantial reserves available for the award of the Disabled Facilities Grant (DFG). These reserves will help enable the Service to meet an unexpected increase in demand or reduction in central government funding. We examined the financial controls in place and they are robust.
63. Our testing identified the allocation of the Disabled Facilities Grant is well controlled and there is a full audit trail for all decisions made. Roles and responsibilities are also clearly defined and appropriate.
64. We identified two minor issues. One, relating to updating the Council's website, was addressed following the issue of the draft report. The second relates to the Service maintaining version control with all procedure updates.

VII: Social Media (Jun 20)

65. The Council is engaging well with residents and businesses on social media to help raise awareness of services, strategies and campaigns. We found the Communications Team are posting content across channels in accordance with the Council's policy and are monitoring the main accounts analytics well.

MID KENT AUDIT

66. However, we have identified some areas for improvement. The social media policy requires revision and there are several (currently inactive) accounts which the Communications Team are not monitoring. The media consent form also requires a review and update to improve its effectiveness.

VIII: ICT Technical Support (Jul 20)

67. Mid Kent ICT's qualified and trained staff support the organisation by resolving IT related problems promptly. Tickets are prioritised upon receipt, tracked using status classifications and there is a protocol for following up closed tickets to ensure a satisfactory resolution. There are two targets, first response time and resolution time for each category of response. Between the introduction Freshdesk on 20th January and 29th February 2020, 98% of tickets have achieved both targets.
68. There are some controls around training and monitoring open cases which could benefit from minor improvements.

IX: Homelessness (Sep 20)

Currently in draft but executive summary agreed for release

69. We found the Council's Housing service has effective controls in place to manage its key risks. These controls include training, keeping evidence to support s188 decisions, statutory reviews and Personal Housing Plan (PHP) management. The service effectively manages its decision making and producing practical, reasonable and realistic Personal Housing Plans. Our few audit findings have limited risk, but highlight necessary improvements in managing the template letter library.

X: Development Management: Major Applications (Sep 20)

Currently in draft but executive summary agreed for release

70. The Council is responsible for processing applications for major developments in the Swale Borough. Cases are first processed by Mid Kent Planning Support and are then allocated appropriately to Swale officers using well established procedures. There is good monitoring of case loads and progress on applications, with extensions of time being agreed as necessary. Swale officers involved in the process have appropriate training.
71. Applications sometimes require engagement with other departments and/or external parties. Changes could be made to speed up the consultation process and ensure applicants are better informed of progress. Feedback on the whole process is obtained from applicants through an annual agent's forum and other ad-hoc contacts.

MID KENT AUDIT

XI: Property Management (Sep 20)

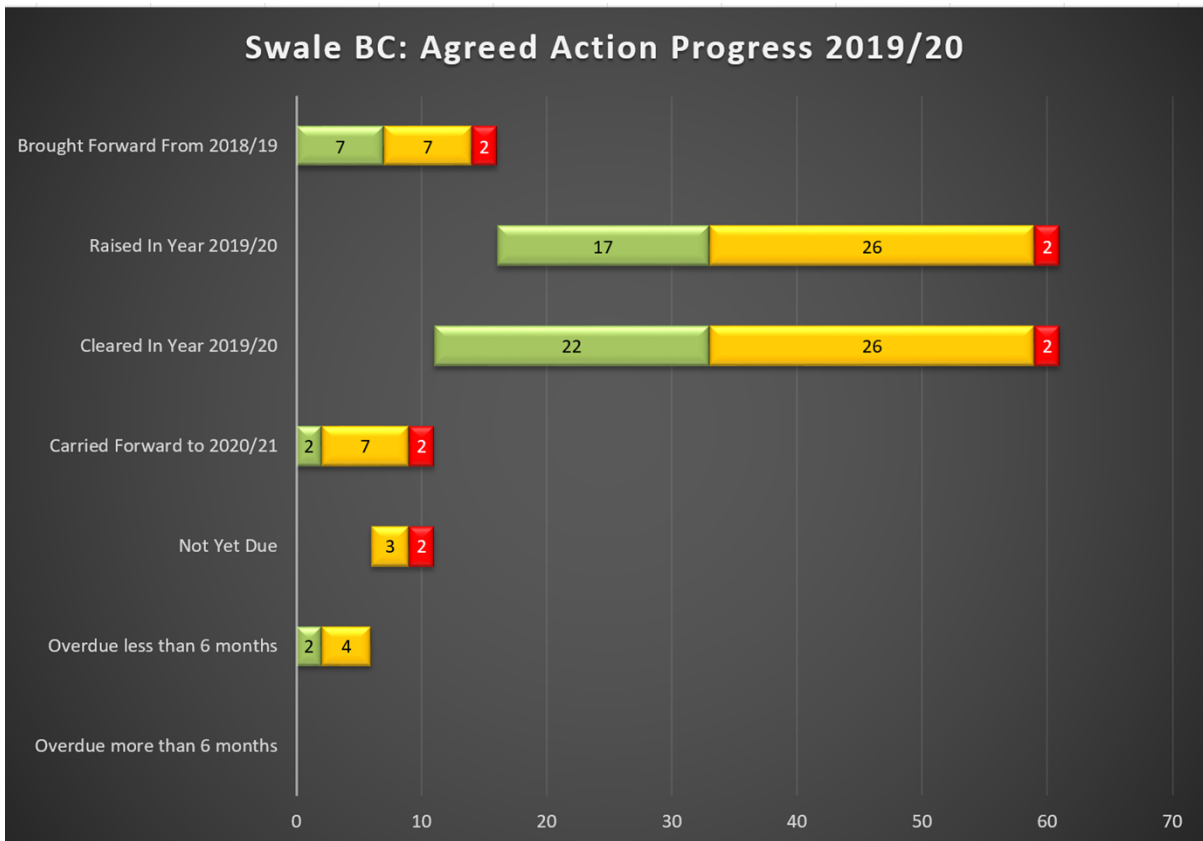
Currently in draft but executive summary agreed for release

72. Income from commercial rents is a key source of funding for the Council generating around £570,000. The Property Services Team manages the Council's property portfolio in line with the Council's Property Asset Strategy to deliver the aims of the Strategy, and also maximise and protect what is a key source of ongoing income to the Council. The Strategy is currently in the process of being reviewed to ensure that it reflects the Council's current priorities.
73. The Property Services team are small, yet considerably experienced and qualified in the management of the asset portfolio. Processes are in place to identify properties which are surplus to requirements and take appropriate action. This ensures that assets are used to generate income in line with corporate expectations.
74. Our testing found that tenancy agreements are in place and rent charges are being raised in accordance with the agreements. Rents are routinely reviewed and increases applied as appropriate for the property and tenancy agreement.
75. The majority of rent accounts tested were found to have no outstanding rent. For those accounts where a debt was evident, officers were found to be aware of the position and balances outstanding. The necessary steps were also being taken in line with the debt recovery policy to attempt to reduce the level of debt.

MID KENT AUDIT

Following Up Actions

76. Our approach to agreed actions is that we follow up each quarter, examining those that fell due in the previous three months. We take due dates from the action plan agreed with management when we finish our reporting. We report progress on implementation to Senior Management Team each quarter. Our report includes matters of continuing concern and where we have revisited an assurance rating (typically after action to address key findings).
77. We summarise the current position below. The chart shows low priority actions (at the left of each bar) in green, medium priority in amber (in the middle) and high priority in red (at the right of the bars).



78. Overall we are content with officers' progress on acting to address findings we raise in our reviews.

MID KENT AUDIT

Corporate Governance

79. Corporate governance is the rules, practices and processes that direct and control the Council.
80. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.

Counter Fraud & Corruption

81. 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.

Whistleblowing, money laundering and investigations

82. The Council's whistleblowing policy names internal audit as one route for Members and officers to safely raise concerns on inappropriate or even criminal behaviour.
83. We have had no matters raised with us for investigation as whistleblowing complaints that it is appropriate to report at this time.
84. We have also had no matters raised with us noting concerns that may indicate a breach of money laundering regulations.

Investigations

85. In our interim report we noted we had completed one full investigation and helped with another matter drawn to our attention by management. There were 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.
86. We had no other matters brought to us for investigation during the year.
87. We have also contributed advice and support to investigations led by other sections of the Council.

MID KENT AUDIT

National Fraud Initiative

88. 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.
89. During 2019/20 we investigated 158 matches across 4 datasets (Creditors, Payroll, Procurement and Housing Waiting List). We found:
- No instances of fraud.
 - **10 errors** in the *Waiting List* dataset, resulting in an estimated saving² of **£32,400**.

Risk Management

90. We reported separately to Members in March 2020 on risk management work during 2019/20.

Other Audit and Advice Work

91. 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.
92. 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.
93. 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.

² The NFI website estimates the value of removing an applicant from the Housing waiting list to be £3,240.

Audit Quality & Improvement

Standards and ethical compliance

94. Government sets out the professional standards we must work to in the **Public Sector Internal Audit Standards** (the “Standards”). These Standards are a strengthened version of the Institute of Internal Audit’s global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
95. The Standards include a specific demand for reporting to Senior Management and Audit Committee on our conformance with the Code of Ethics as well as the Standards themselves. We have included the Code within our Audit Manual and training for some years. We can report to Members we remain in conformance with the Code.

External Quality Assessment

96. Our 2019/20 Audit Plan included full wording from Standard 1312. That Standard demands all internal audit services seek an external quality assessment at least every five years. In that plan we set out some headline principles to guide our assessment.
 - A properly qualified and experienced external assessor.
 - A paid review rather than reciprocal or peer arrangement.
 - To consider best practice as well as simple conformance.
 - One assessment across the whole partnership.
 - Published terms of reference before fieldwork begins.
 - Publish the final report in full to Members, including response to any action plan for improvements.
97. Members from all four authorities in the partnership supported these principles. In late 2019 we undertook a competitive procurement to appoint an assessor. We consulted Members on the procurements and had non-audit team members included in bid scoring representing Directors at all four partner authorities.
98. We include the report in full as an appendix to the annual report but reproduce here the conclusion by way of overall summary:

MID KENT AUDIT

4. Opinion

It is our opinion that Mid Kent Audit's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000	Fully Conforms
Attribute standard 1100	Fully Conforms
Attribute standard 1200	Fully Conforms
Attribute standard 1300	Fully Conforms
Performance standard 2000	Fully Conforms
Performance standard 2100	Fully Conforms
Performance standard 2200	Fully Conforms
Performance standard 2300	Fully Conforms
Performance standard 2400	Fully Conforms
Performance standard 2500	Fully Conforms
Performance standard 2600	Fully Conforms

99. We believe this makes us the first audit service to have received *Fully Conforms* assessments from both major relevant professional bodies: the Institute of Internal Audit (in 2015) and CIPFA (2020).

MID KENT AUDIT

Training and Qualifications

100. We continue to offer strong support to the audit team in continuing development and upholding professional competence. In 2019/20 this involved providing individual training budgets and supporting people to follow avenues for development suitable for their career position and ambitions.
101. A key but far from sole part of this approach is supporting professional qualifications. During 2019/20 we supported several of the team through professional studies and remain pleased with their progress and success. We would like to highlight:
- **Louise Taylor:** Completed her traineeship with Mid Kent Audit by passing the final exams with the Institute of Internal Audit to become a Certified Internal Auditor (CIA). We are pleased to confirm Louise will stay with the Partnership as a qualified auditor.
 - **Andy Billingham:** Completed the final two papers set by the Institute of Internal Audit to become a Certified Internal Auditor. Following his success, Andy becomes the eighth member of our team of eleven to hold a professional qualification.
 - **Mark Goodwin:** Completed his qualification with CIPFA to become an Accredited Counter Fraud Specialist.
 - **Rich Clarke:** Achieved the full Chartered qualification from the Institute of Internal Audit. Rich now holds full chartered status with both bodies who oversee public sector internal audit in the UK (CMIIA and CPFA).
 - **Russell Heppleston:** Completed his qualification with the Institute of Risk Management to become a Certified Member of that institute.
 - **Cath Byford & Katie Bucklow:** Our two apprentices have made good starts on their Level 7 Apprenticeship schemes. These include exams set both by the University (Birmingham City University) and the IIA. Cath has completed the first two University Exams and also stage one of the CIA qualification. Katie, who joined us in August, was successful in her first University Exam earlier this year.

MID KENT AUDIT

102. Also during 2019/20 we have worked closely with neighbouring authorities. Most notably in seconding our Deputy Head of Audit Partnership, **Russell Heppleston**, as Head of Audit for Dartford and Sevenoaks Councils. That secondment ran from August 2018 until January 2020, after which Russell returned to Mid Kent Audit to a revised and expanded Deputy Head of Audit Partnership role.
103. Through regional and national roles, the Head of Audit Partnership continues to represent the service in gaining opportunities for professional development. This includes developing training with the London Audit Group aimed at supporting aspiring Audit Managers, as well as speaking engagements at national events such as CIPFA Audit Conference.

Acknowledgements

104. 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.
105. 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.
106. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

MID KENT AUDIT

Annex 1: Assurance & Priority level definitions

Assurance Ratings 2019/20 (Unchanged from 2014/15, save for addition during COVID-19 Emergency)

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>
<p>Note for reports issued during the COVID-19 Emergency</p> <p>During this period we have temporarily moved away from giving a single word assurance rating back to a narrative conclusion balancing the strengths and weaknesses of controls in a service. The aim is to streamline discussion at the point of closing a review and allow the discussion to move swiftly on to implementing the agreed actions.</p>	

MID KENT AUDIT

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.

MID KENT AUDIT

Annex 2: Internal Audit Charter

Purpose & Mission

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

Standards for the Professional Practice of Internal Auditing

3. Mid Kent Audit will govern itself by adherence to the compulsory parts of the Institute of Internal Auditors' (IIA) [International Professional Practices Framework \(IPPF\)](#). These include:
 - The Core Principles for the Professional Practice of Internal Auditing.
 - The [Code of Ethics](#).
 - The International Standards for the Professional Practice of Internal Auditing. In the UK by the Internal Audit Standards Advisory Board and the Relevant Internal Audit Standards Setters adapt these into [the Public Sector Internal Audit Standards](#) (the "Standards").
 - The Definition of Internal Auditing set out by the IIA.
4. Mid Kent Audit will also govern itself under the *Local Government Application Note (2019 Edition)*³ set out by the Chartered Institute of

³ The Application Note is a paid-for publication. We can provide copies to Members on request but cannot link in full through the public version of this Charter.

MID KENT AUDIT

Public Finance & Accounting (CIPFA). Auditors who belong to other professional institutes will also adhere to the relevant Code of Ethics.

5. The Head of Audit Partnership will report periodically to Senior Management and the Committee on Mid Kent Audit's conformance to the Code of Ethics and the Standards.

Authority

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

MID KENT AUDIT

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

Independence and Objectivity

12. The Head of Audit Partnership will ensure Mid Kent Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities without bias. These include matters of audit selection, scope, procedures, frequency, timing and report content. The Head of Audit Partnership will report if independence or objectivity may be under threat in fact or appearance.
13. Internal auditors will preserve an unbiased approach that allows them to perform engagements objectively. They will believe in their work, make no quality compromises, and not subordinate their audit judgement to others.
14. Internal auditors will have no direct responsibility or authority over any of the subjects audited. So, internal auditors will not set up internal controls, develop procedures, prepare records, or engage in any other action that may hinder their judgement. This includes:

MID KENT AUDIT

- Assessing services for which they had any responsibility within the previous year.
 - Setting up or approving transactions external to Mid Kent Audit.
 - Directing any Council employee not employed by Mid Kent Audit, except those properly assigned to help internal audit.
 - Reviewing parts of the Council staffed by close friends or family members.
15. Where the Head of Audit Partnership has roles that fall outside internal audit, the Council will set up safeguards to limit impacts to independence or objectivity.
16. At the Council, the Head of Audit Partnership has ancillary roles as set out in the *Risk Management Framework*, the *Counter Fraud Policy*, the *Whistleblowing Policy* and *Anti Money Laundering Procedures*. As set out in the audit plan, the Head of Audit Partnership also has on-demand ancillary advisory roles on counter fraud and investigative work.
17. In carrying out their roles auditors will follow the independence and objectivity principles in this Charter. On Risk Management, specifically, auditors will adhere to guidance set out by the IIA in its position paper on *Risk Management and Internal Audit* [published on 11 July 2019](#).
18. Internal auditors will:
- Disclose any limit of independence or objectivity, in fact or appearance, to suitable parties.
 - Display professional objectivity in gathering, evaluating and communicating information about audit engagements.
 - Deliver balanced assessments of all available and relevant facts and circumstances.
 - Take necessary precautions to avoid undue influence by their own interests or by others in forming judgements.
19. The Head of Audit Partnership will confirm to the Committee at least yearly the organisational independence of Mid Kent Audit.

MID KENT AUDIT

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

Scope of Internal Audit Work

21. The scope of internal audit work covers the Council's whole control environment. This includes objective examination of evidence to create independent assessments to the Committee, management and others on the adequacy and effectiveness of governance, risk management and control. Internal audit assessments include evaluating whether:
 - The Council properly identifies and manages risks on its strategic and other objectives.
 - The actions of the Council's officers and contractors comply with the Council's policies, procedures and applicable laws, regulations and governance standards.
 - The results of Council work and programs are consistent with agreed goals and objectives.
 - The Council carries out its work and programs effectively and efficiently.
 - Council systems enable compliance with the policies, procedures, laws and regulations that could cause significant impact.
 - Information and the means used to identify, measure, analyse, classify and report such information are reliable and have integrity.
 - The Council gains assets economically, uses them efficiently and protects them adequately.
22. These assessments will lead to a Head of Audit Partnership opinion as described by the Standards. The opinion will report on the adequacy and effectiveness of the Council's internal control, corporate governance and risk management.
23. The Head of Audit Partnership will report periodically to senior management and the Committee about:
 - Mid Kent Audit's purpose, authority and responsibility.
 - Mid Kent Audit's plan, and performance against its plan.

MID KENT AUDIT

- Mid Kent Audit's conformance with the IIA's Code of Ethics and Standards and action plans to address any significant issues.
 - Significant risk exposures and control issues, including fraud risks, governance issues and other matters demanding the attention of, or sought by, the Committee.
 - Results of audit engagement or other work.
 - Audit resource use and need.
 - Any management risk response that may be unacceptable to the Council.
24. The Head of Audit Partnership also coordinates work where possible, and considers relying on the work of other internal and external assurance and consulting service providers as needed. Mid Kent Audit may perform advisory and related client service work. Mid Kent Audit will agree the nature and scope of such work with the client, provided Mid Kent Audit does not assume management responsibility.
25. Mid Kent Audit may identify opportunities for improving the efficiency of governance, risk management and controls during engagements. Where identified, Mid Kent Audit will communicate these opportunities to management.

Responsibility

26. The Head of Audit Partnership has the responsibility to:
- Present, at least yearly, to senior management and the Committee a risk-based internal audit plan for review and approval.
 - Communicate to senior management and the Committee the impact of resource limits on the internal audit plan.
 - Review and adjust the internal audit plan, as necessary, in response to changes in the Council's business, risks, programs, systems and controls.
 - Communicate immediately to senior management and the Committee any significant interim changes to the internal audit plan. A 'significant' change covers one or more of the following:
 - Removal of a 'high priority' audit engagement.

MID KENT AUDIT

- Commitments beyond the approved budget or resource envelope.
 - Other changes that, in the view of the Head of Audit Partnership, may inhibit ability of Mid Kent Audit to deliver a robust opinion as set out by the Standards.
 - Ensure each engagement of the internal audit plan adheres to quality standards. This includes:
 - Setting out suitable objectives and scope.
 - Assigning suitable and adequately supervised auditors
 - Documenting work programs and testing results.
 - Communicating results with applicable conclusions and recommendations to proper parties.
 - Follow up on engagement findings and corrective actions. Report periodically to senior management and the Committee any corrective actions not taken effectively.
 - Ensure application of and adherence to the principles of integrity, objectivity, confidentiality and competency.
 - Ensure that Mid Kent Audit collectively has or gains the knowledge, skills and other competencies needed to fulfil this Charter.
 - Ensure consideration of trends and emerging issues that could impact and communicating these to senior management and the Committee as fitting.
 - Ensure consideration of emerging trends and successful practices in internal auditing.
 - Set up and ensure adherence to policies and procedures designed to guide Mid Kent Audit's work.
 - Ensure adherence to the Council's relevant policies and procedures, unless such policies and procedures conflict with the Charter. Report any such conflicts to senior management and the Committee with a suggested path to resolution.
27. The Council will also consider CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations ([2019 edition](#)). In particular when setting job roles and overseeing performance of the Head of Audit Partnership.

MID KENT AUDIT

Quality Assurance and Improvement Programme

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

Charter Approval

This Charter is authorised within Swale Borough Council by:

Nick Vickers: Chief Financial Officer

Councillor Simon Clark: Chairman of the Audit Committee

With the agreement of:

Rich Clarke: Head of Audit Partnership

Steve McGinnes: Mid Kent Services Director

Glossary and Standards Reconciliation

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

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Mid Kent Audit Partnership

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy and Technical, CIPFA.

7th May 2020

1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five year period.

2. Background

- 2.1 Mid Kent Audit is a four-way partnership formed between the Borough Councils of Ashford, Maidstone, Swale and Tunbridge Wells. They work to a unified audit approach and as one team delivering around 1,800 days per year of audit and assurance work across the four authorities. The partnership began in 2005 as a collaboration between Maidstone and Ashford with Swale and Tunbridge Wells joining in 2010.
- 2.2 Mid Kent Audit is part of Mid Kent Shared Services and is hosted by Maidstone Borough Council. They report to a management board made up of representatives from the four local authorities in the partnership. Partnership governance is documented in a collaboration agreement signed by all four authorities. However, we note that the current agreement is out of date. From an operational perspective, Mid Kent Audit reports directly to the executive teams and Audit Committees at their respective clients. These two bodies fulfil the roles of 'senior management' and 'the board', as defined by the Public Sector Internal Audit Standards.
- 2.3 Mid Kent Audit has been operating under PSIAS since its launch in 2013, and this is the third external quality assessment that they have commissioned, the previous ones being in 2014 with a revisit in 2015.
- 2.4 Mid Kent Audit has an audit manual in that is clear and easy to follow, and provides the auditors with a comprehensive guide to all aspects of performing an audit. The audit manual is embedded in the Pentana audit management system and is easy to access by the use of 'mouseover' functionality. Standard templates are used for the engagement working papers and testing schedules, engagement terms of references, action plans and audit reports. All of these documents are held in the engagement files in Mid Kent Audit's audit management application (Pentana). The Pentana application has been set up with extensive local modification to closely follow the PSIAS.
- 2.5 The Pentana application is also used for managing the engagements with all staff recording time spent on the assignments in the application. Supervision of the engagements takes place at every stage of the process and is recorded in Pentana.
- 2.6 Mid Kent Audit has a quality assurance process in place that feeds into its Quality Assurance and Improvement Programme (QAIP) although they acknowledge that there is scope to enhance their quality assurance processes. There are four main elements to this process. The first element is a review of the live engagement by the supervising officer. This is either a one stage or two-stage process, depending on the grade and experience of the auditor. The second element is a cold review of a sample of completed audits to identify the elements of the audit that went to plan; the elements that did not go as planned; and whether there are any lessons to be learnt for future reviews or for the auditor. The third element comprises a customer satisfaction questionnaire and survey, with the fourth element being an annual self-assessment of Mid Kent Audit's overall conformity with the PSIAS. All of the above processes are used to inform Mid Kent Audit's QAIP.

3. Validation Process

- 3.1 The self-assessment validation comprises a combination of desktop and on-site review and focuses on the key elements of the PSIAS self-assessment in the limited time available. The desktop period of the review focussed on determining the strengths and weaknesses of Mid Kent Audit, and formed the key lines of enquiry used during the on-site stage, in order that the validation review is timely and adds real value to the organisation. The key lines of enquiry assessed Mid Kent Audit against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- 3,2 Mid Kent Audit provided a comprehensive range of documents that they used as evidence to support their self-assessment and these were available for examination prior to and during this validation review. These documents included the:-
- self-assessment against the standards;
 - quality assurance and improvement plan (QAIP);
 - evidence file to support the self-assessment;
 - sample audit charters for clients;
 - sample of annual reports and opinions;
 - sample of audit plans and strategies;
 - quality manual; and
 - progress and other reports to a sample of client Audit Committees.

All of the above documents were examined during the EQA.

- 3.3 The on-site stage of the validation process was carried out from the 24th to the 28th February 2020, and involved interviews with the key personnel from Mid Kent Audit, plus a sample of key stakeholders from Mid Kent Audit's customer base, made up of Finance Directors and chairs of Audit Committees. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way Mid Kent Audit delivered services.
- 3.4 A questionnaire was also sent to the other key stakeholders in advance of the on-site visit and the results analysed during the review. A summary of the survey results is shown at appendix A of the report. The reviewer also carried out an end-to-end review of a sample of audits to confirm his understanding of the audit process used by Mid Kent Audit and embedded in their Pentana audit management system during the on-site stage of the review.

4. Opinion

It is our opinion that Mid Kent Audit's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

The table below shows Mid Kent Audit's level of conformance to the individual standards assessed during this external quality assessment:-

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000	Fully Conforms
Attribute standard 1100	Fully Conforms
Attribute standard 1200	Fully Conforms
Attribute standard 1300	Fully Conforms
Performance standard 2000	Fully Conforms
Performance standard 2100	Fully Conforms
Performance standard 2200	Fully Conforms
Performance standard 2300	Fully Conforms
Performance standard 2400	Fully Conforms
Performance standard 2500	Fully Conforms
Performance standard 2600	Fully Conforms

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charters for all of Mid Kent Audit's clients.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in the audit manual and the Pentana audit management application, and that Mid Kent Audit is a competent and professional internal audit partnership that conforms to all ten elements of the Core Principles.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are

intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that Mid Kent Audit conforms to the Code of Ethics and this is embedded in their audit manual and the Pentana audit management application. It is part of their overarching culture and underpins the way Mid Kent Audit operates.

5.4 **Attribute Standard 1000 – Purpose, Authority and Responsibility**

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

We reviewed the audit charters for a sample of Mid Kent Audit's clients and the processes used to present them to Audit Committees for approval and we are satisfied that the audit charters and current processes conform to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is covered in Mid Kent Audit's audit manual and is an integral part of their culture. The Service reports in its own name and directly to senior management and the Audit Committees at all of its clients. All employees sign a declaration of interest each year and declare any potential impairment to independence or objectivity for each audit they undertake.

We have reviewed Mid Kent Audit's audit manual and their quality assurance and improvement plan, together with their reporting lines and positioning in the organisations they work with.

We are satisfied that Mid Kent Audit conforms with attribute standard 1100 and the LGAN, although there are some opportunities to strengthen this and/or grow the business that we have set out in section 8 of this report.

5.6 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires Mid Kent Audit's engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that Mid Kent Audit has a professional and experienced, workforce who all either hold or are working towards obtaining, professional qualifications. The Head of the Mid Kent Audit Partnership holds a CCAB qualification and is also an Accredited Counter Fraud Specialist, while the Deputy Head holds the IIA and Institute of Risk Management qualifications

Mid Kent Audit has staff who are experienced in data analytics and they tend to do this by using the functionality available in MS Excel. They are not currently using any specialist data analytics applications.

It is evident from this review that Mid Kent Audit's employees perform their duties with due professional care. We are satisfied that Mid Kent Audit complies with attribute standard 1200 and the LGAN, although there are some opportunities to strengthen the services they provide to their clients and perhaps grow the business that we have set out in section 8 of this report.

5.7 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Head of the Mid Kent Audit Partnership to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Mid Kent Audit has developed a robust and effective quality assurance process that ensures engagements are performed to a high standard within the available resources. It is effective and feeds into Mid Kent Audit's quality assurance and improvement programme. We have examined this process during the EQA and are satisfied that Mid Kent Audit conforms to attribute standard 1300 and the LGAN. There is one suggestion to enhance compliance with standard 1300 and this is set out in section 8 of this report.

5.8 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Head of Audit Partnership of Mid Kent Audit to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Head of Audit Partnership must produce an audit plan for each client, and communicate this and Mid Kent Audit's resource requirements, including the impact of resource limitations, to senior management and the Audit Committees at each client for their review and approval. The Head of Audit Partnership must ensure that Mid Kent Audit's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Head of Audit Partnership to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Head of Audit Partnership to report periodically to senior management and the Audit Committees on internal audits activities, 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 audit panels.

As mentioned in section two of this report, Mid Kent Audit has an audit manual, supervision and quality assurance processes in place that meet the requirements of the PSIAS. They have developed comprehensive planning processes that follow best practice by taking into consideration the client's risks, objectives and risk management and governance frameworks; other relevant and reliable sources of assurance; any key issues identified by the client's managers; and Mid Kent Audit's own risk and audit needs assessments. From this information, they produce risk-based audit plans that are designed to enhance the client's risk management and governance frameworks and control processes; and objectively provide them with relevant assurance. These audit plans are reviewed and approved by the senior management and the Audit Committees at each client. We have noted that Mid Kent Audit do not currently have assurance maps for their clients to show where they get assurance from which can help in the development of the audit plan. The Head of the Mid Kent Audit Partnership is aware of this and has already included this as an action on the quality assurance and improvement plan timed alongside a

planned central update to Pentana scheduled for later in 2020, so we have not included this as an action from this EQA,

Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plans and the performance of Mid Kent Audit, is regularly reported to the Audit Committees, with an annual report opinion for each client being issued at the end of the year.

The clear indication from this EQA is that Mid Kent Audit is effectively managed, and conforms to standard 2000 and the LGAN.

5.9 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation’s risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by Mid Kent Audit and is set out in their audit manual, the Pentana audit management system, and their working methodologies. During this EQA, we selected a small sample of completed audit engagements from different clients, and examined them to see if they conformed to standard 2100 and Mid Kent Audit’s own methodologies. We found that the sample audits complied with both.

Internal audit’s credibility and value is enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact on the organisation. Mid Kent Audit’s clients feel there is scope to provide more of this as it would add value to their operations.

The clear indication from this EQA is that Mid Kent Audit conforms to performance standard 2100 and the LGAN, although there are opportunities to enhance the amount and type of insight they offer their clients, as we have set out in section 8 of this report.

5.10 Performance Standard 2200 – Engagement Planning

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement’s objectives, scope, timing and resource allocations. The plan must consider the organisation’s strategies, objectives, and risks relevant to the engagement.

As mentioned in section two of this report, Mid Kent Audit has an audit manual, supervision and quality assurance processes in place that covers engagement planning in detail, and meets the requirements of the PSIAS. During this EQA, we selected a sample of completed audit engagements, and examined them to see if they conformed to standard 2200. We found that they all conformed to the standards and Mid Kent Audit’s own audit manual and associated protocols, and therefore we conclude that Mid Kent Audit conforms to performance standard 2200 and the LGAN.

5.11 Performance Standard 2300 – Performing the Engagement

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

As mentioned in section two of this report, Mid Kent Audit has an audit manual, supervision and quality assurance processes in place that meets the requirements of the standards. During this EQA, we selected a sample of completed audit engagements from all of their clients, and examined them to see if they conformed to the standards. We found that they all conformed to the standards and Mid Kent

Audit's own audit manual, and therefore we conclude that Mid Kent Audit conforms to performance standard 2300 and the LGAN.

5.12 **Performance Standard 2400 – Communicating Results**

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The audit manual, supervision and quality assurance processes cover the communication of results in detail and meet the requirements of the PSIAS. We selected a sample of completed audit engagements and examined them to see if they conformed to the standards. We found that they all conformed to the standards and Mid Kent Audit's own audit manual. We also reviewed the progress and annual reports to the Audit Committees and found these also conformed to the standards and Mid Kent Audit's own internal procedures. We therefore conclude that Mid Kent Audit conforms to performance standard 2400, although there is a minor enhancement that can be made to strengthen their conformance to the standards that we have set out in section 8 of this report.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place at all of Mid Kent Audit's clients, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the relevant Audit Committees. From this EQA, it is evident that Mid Kent Audit conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Head of Audit Partnership has concluded that a client's management has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare. Consequently, we did not see any during this EQA. From this external quality assessment, it is evident that Mid Kent Audit conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards.

8. Issues for management action

8.1 Although Mid Kent Audit conforms to the PSIAS there are a few minor issues that management should consider addressing. Some of these relate directly to the standards while others relate more to the effectiveness of the service they provide to their clients and potential opportunities to grow the business.

8.2 All of Mid Kent Audit's employees are required to complete and sign an annual declaration of interest form. This is common throughout the public sector,

however, many public sector internal audit services are now expanding these documents to include a statement that the employee has read and understood the requirements placed upon them by the standards, the code of ethics and the seven principles of public life as this is now regarded as good practice. We suggest consideration is given to adding such a paragraph to the declaration of interest forms for all Mid Kent Audit employees.

- 8.3 Mid Kent Audit has used IDEA in the past for data analytics but is no longer using it and does not have the current version of the application. The IDEA application has improved considerably since the last version Mid Kent Audit used, and coupled with the SmartAnalyser add-on tool, provides an effective and efficient way of auditing the core financial and HR systems used by Mid Kent Audits clients.
- 8.4 Mid Kent Audit's clients have indicated that they would like to see them be more insightful with their audits. There are a number of ways this can be achieved, such as cross cutting reviews across all of the partner authorities, horizon scanning and briefing sessions / documents for managers, and using data analytic tools such as the CIPFA Nearest Neighbours and VFM models,
- 8.5 As Mid Kent Audit conforms to the PSIAS, we suggest that they consider adding the statement 'Conforms with the Public Sector Internal Audit Standards'. to the individual audit reports that they issue. A similar, although not identical, statement is already included in the annual report.
- 8.6 The current audit report format for all of Mid Kent Audit's clients does not include a statement limiting the distribution and use of the report and its content. It is good practice to include such a statement in audit reports as it acts as a warning to readers not to release reports to third parties before they enter the public domain through the agreed distribution channels. Such a statement may also deter readers from extracting parts of the report and using it out of context to satisfy their own agendas. It is suggested that Mid Kent Audit consider adding a statement limiting the distribution and use of the report and its content to all audit reports.
- 8.7 The most recent collaboration agreement which formalises governance for the partnership is out of date, expiring in 2019. The authorities should work towards striking a new agreement that reflects their wishes and ambitions for Mid Kent Audit.
- 8.8 A summary of the agreed actions to address the above issues is included at the end of this report.

9. Action Plan

1. Statement limiting distribution and use of audit reports (Low priority)	
Rationale	Agreed Action
The current audit report format for all of Mid Kent Audit's clients does not include a statement limiting the distribution and use of the report and its content. It is good practice to include such a statement in audit report as it acts as a warning to readers not to release reports to third parties before they enter the public domain through the agreed distribution channels. Such a statement may also deter readers from extracting parts of the report and using it out of context to satisfy their own agendas. The Head of Audit Partnership should consider adding a statement to the audit reports limiting the distribution and use of the report and its content.	This is a fair and sensible suggestion to clarify the purpose of our reporting. We are consulting with CIPFA on example paragraphs and will then add suitable wording to our standard templates.
Action Responsibility	Head of Audit Partnership
Deadline	All reports for audit year 2020/21 and onward

2. Conforms to the IPPF (PSIAS) statement (Low priority)	
Rationale	Agreed Action
As Mid Kent Audit conforms to the PSIAS, we suggest that they consider adding the statement 'Conforms with the Public Sector Internal Audit Standards'. to the individual audit reports that they issue. A similar, but not identical, statement is already included in the Head of Audit Partnership's annual report and opinion.	This is a discretionary element of the Standards we have not previously applied. However, with clarification on our conformance provided by this review, we will consult with CIPFA on appropriate wording and add to our standard templates.
Action Responsibility	Head of Audit Partnership
Deadline	All reports for audit year 2020/21 and onward

3. Enhancement of the annual declaration of interest forms (Advisory)	
Rationale	Agreed Action
All of Mid Kent Audit's employees are required to complete and sign an annual declaration of interest form. This is common throughout the public sector, however, many public sector internal audit services are now expanding these documents to include a statement that the employee has read and understood the requirements placed upon them by the standards, the code of ethics and the seven principles of public life as this is now regarded as good practice. We suggest consideration is given to adding such a paragraph to the declaration of interest forms for all Mid Kent Audit employees	<p>We agree this is a sensible precaution but would wish to protect the audit team from excess administration by incorporating this declaration within (or alongside) existing practices at Maidstone BC.</p> <p>We will consult with Mid Kent Legal (who manage the overall declaration process) with a view to implementing a combined declaration for the audit service which meets all corporate and standards requirements for the new audit year.</p>
Action Responsibility	Head of Audit Partnership
Deadline	30 June 2020

4. Expand the use of data analytics (Advisory)	
Rationale	Agreed Action
Mid Kent Audit has used IDEA in the past for data analytics but is no longer using it and does not have the current version of the application. The IDEA application has improved considerably since the last version Mid Kent Audit used, and coupled with the SmartAnalyser add-on tool, provides an effective and efficient way of auditing the core financial and HR systems used by Mid Kent Audits clients. Consideration should be given to obtaining the latest version of IDEA and SmartAnalyser.	<p>We agree that the use of data analytics as a general discipline, plus the authority's use and reliance on data, has advanced considerably since we last used IDEA in 2014.</p> <p>We will take a look at IDEA, and perhaps other related packages, with a view to trialling use in the 2020/21 audit plan.</p>
Action Responsibility	Head of Audit Partnership
Deadline	30 June 2020

5. Provide greater insight for clients (Advisory)	
Rationale	Agreed Action
Mid Kent Audit's clients have indicated that they would like to see them be more insightful with their audits. There are a number of ways this can be achieved, such as cross cutting reviews across all of the partner authorities, horizon scanning and briefing sessions / documents for managers, and using data analytic tools such as the CIPFA Nearest Neighbours and VFM models,	<p>We have periodically completed comparative work across the partnership and note it has been well received. With our use of Pentana since 2018, it has become easier to collate and organise our work in such a way to support broader use of our findings and insights.</p> <p>We will liaise within the audit management team and with clients on how best to take forward the information we gather to support this sort of analysis, with a view to trialling one or more approaches as part of our 2020/21 audit plan.</p>
Action Responsibility	Head of Audit Partnership
Deadline	30 September 2020

6. Renew collaboration agreement (Advisory)	
Rationale	Agreed Action
The most recent collaboration agreement which formalises governance for the partnership is out of date, expiring in 2019. The authorities should work towards striking a new agreement that reflects their wishes and ambitions for Mid Kent Audit.	We will revisit discussions around the current replacement draft and drive this discussion forward among the authorities.
Action Responsibility	Head of Audit Partnership & Mid Kent Services Director
Deadline	31 December 2020

10. Definitions

Fully Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Head of Audit Partnership and Head of Internal Audit, the Deputy Heads of Audit, Audit Managers, and the Business Support Unit at Mid Kent Audit in providing the information requested for this EQA, is greatly appreciated. Our thanks also go to chairs of Audit Committees and the Finance Directors from Mid Kent Audit's clients that made themselves available for interview during the EQA process and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

XX March 202-

This report has been prepared by CIPFA at the request of the Management Board of Mid Kent Audit, and Mid Kent Audit's Head of Audit Partnership, the terms for the preparation and scope of the report have been agreed with them. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of the Management Board of Mid Kent Audit, and Mid Kent Audit's Head of Audit Partnership, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Appendix A

Summary of Survey Results

As part of the EQA process, CIPFA used a questionnaire to obtain the views of the key stakeholders from Mid Kent Audit Partnership's clients. The questionnaire was sent to the Heads of Finance and audit committee chairs of each client and thirty five completed questionnaires were returned.

No.	Question	Responses Received		
		Agree	Partially Agree	N/A
1	The internal audit service is seen as a key strategic partner throughout the organisation.	30	5	0
2	Senior managers understand and fully support the work of internal audit.	33	2	0
3	Internal audit is valued throughout the organisation.	30	4	1
4	The internal audit service is delivered with professionalism at all times.	35	0	0
5	The internal audit service responds quickly to changes within the organisation.	29	6	0
6	The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate.	32	3	0
7	The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes	32	3	0
8	The internal audit service's recommendations consider the wider impact on the organisation	32	3	0
9	The internal audit service ensures that recommendations made are proportionate, commercial and practicable in relation to the risks identified.	31	4	0
10	There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service	33	2	0
11	The internal audit service includes consideration of all risk areas in its work programme.	33	2	0
12	Internal audit advice has a positive impact on the governance, risk management, and the system of control of the organisation.	34	1	0
13	Internal audit activity has enhanced organisation-wide understanding of governance, risk management, and internal control.	33	2	0

No.	Question	Responses Received		
		Agree	Partially Agree	N/A
14	The internal audit service asks challenging and incisive questions that stimulate debate and improvements in key risk areas.	30	5	0
15	The internal audit service raises significant control issues at an appropriate level and time in the organisation.	34	1	0
15	The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives.	24	11	0
17	Internal audit activity influences positive change and continuous improvement to business processes, bottom line results and accountability within the organisation	33	2	0
18	Internal audit activity promotes appropriate ethics and values within the organisation	34	1	0

Audit Committee Meeting	Agenda Item 5
Meeting Date	30 September 2020
Report Title	Updated Internal Audit & Assurance Plan 2020/21
Cabinet Member	Cllr Roger Truelove, Leader of Swale Borough Council
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Rich Clarke – Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. The Committee approves the updated 2020/21 Internal Audit & Assurance Plan. 2. The Committee notes the approach for keeping the plan current through the year. 3. The Committee notes Head of Audit Partnership's conclusion that he has updated the plan with independence and objectivity, free from undue influence.

1 Purpose of Report and Executive Summary

- 1.1 An update to the Internal Audit & Assurance Plan for 2020/21 following significant changes to the Council's risks and priorities during the Covid-19 Pandemic.

2 Background

- 2.1 In March 2020 this Committee approved Mid Kent Audit's Annual Internal Audit & Assurance Plan 2020/21. Since then the Council's risks and priorities have changed substantially during the Covid-19 Pandemic.
- 2.2 The Public Sector Internal Audit Standards (the "Standards") direct that we produce a risk based plan 'at least' each year. Given the changed risks we have felt obliged to revisit the plan in March because of changed circumstances. The attached paper summarises those changes.

3 Proposal

- 3.1 We recommend the Committee approves the changed plan, with our outline approach for keeping currency as risks and priorities change.

4 Alternative Options

- 4.1 The Committee could opt to restate its wish to deliver the 2020/21 plan as it stood. We would not recommend that option as it will need us to undertake work we no longer believe represents a priority and ignore new priorities. That would make an effective Head of Audit Opinion at year end difficult to deliver.

5 Consultation Undertaken or Proposed

- 5.1 We have consulted officers at Head of Service and Director level in changing the plan. The outline approach also fits with previous messages to the Committee on how we compile and oversee audit programmes.

6 Implications

Issue	Implications
Corporate Plan	Internal Audit's work supports all Council activities and the wider Corporate Plan in assisting the governance around its delivery.
Financial, and Property	The work programme set out will be completed within agreed resources.
Legal and Statutory	The Council is required by Regulation to operate an internal audit service in accordance with proper standards.
Crime & Disorder	No direct implications.
Environmental Sustainability	No direct implications.
Health/Wellbeing	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within the risk management process.
Equality/Diversity	No direct implications.
Privacy and Data Protection	We collect and store information in the course of our audit work examining areas of the Council. We use that information in accordance with our collaboration agreement which, in turn, is in accordance with applicable laws and regulations.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Updated Internal Audit & Assurance Plan 2020/21.

8 Background Papers

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

This page is intentionally left blank

Changed Internal Audit & Assurance Plan 2020/21

About the Plan and Planning

1. The *Public Sector Internal Audit Standards* (the “Standards”) set out how we must approach audit planning. Specifically, the Standards say that we “must establish risk-based plans to determine the priorities of internal audit, consistent with the organisation’s goals”. The Standards note this must support the annual opinion but there is no direction for an annual plan. On the contrary, the Standards expect Heads of Audit should adapt plans to reflect developing risks.
2. There can be little doubt the Covid-19 emergency has significantly altered the authority’s risks and priorities for 20/21. We summarised in our Annual Report a few of the ways that this impacted the audit team specifically, most obviously in diverting audit time towards the emergency response.
3. Given the scale of change, we wanted to bring the plan back to Members so they could see changes since the Spring. Our aim is providing visibility on the changes and reassuring Members that we have (and will continue to) keep the plan flexible.
4. **Risk Sources and Information**
5. In preparing this plan we consulted widely within the audit profession. This included leveraging our sector groups for information, including the newly formed Institute of Internal Audit Local Government Forum and the Local Authority Chief Auditors’ Network. We also conducted research on published audit plans across various authorities, paying attention to changes that would be relevant in Mid Kent.
6. We also consulted senior managers across the Council on changes to their risks and priorities. This plan reflects the result of these risks, which we will keep under review.
7. **Audit Resources**
8. Within Mid Kent Audit, Covid-19 has had various impacts on the 1,810 available days across the partnership for the audit year 2020/21. The most significant impacts, at partnership level:
 - 190 days of 2019/20 work displaced into 2020/21 by early redeployment.
 - 70 days of redeployment in the 2020/21 audit year.
 - 175 days resulting from holding a vacancy while councils consider their longer term resource positions, and seeking to bring forward 2020/21 year end to avoid risk of overspill into 2021/22.

MID KENT AUDIT

9. The table below shows how this impacts audit time at Swale Borough Council

ORIGINAL: DAYS IN 20/21 PLAN	LESS: IN-YEAR REDEPLOYMENT	LESS: PRIOR YEAR WORK BFWD	LESS: VACANCY & YEAR-END	FINAL: REMAINING DAYS
450	(16)	(44)	(40)	350
270			Risk Based Audit	218
120			Governance	84
60			Consultancy	48

10. Although this represents a loss of time, we have tried to concentrate this on consultancy and governance roles. This may mean that some desirable tasks such as introducing software to track risk will experience delay.

Substantive Plan Changes

11. The table below shows planned changes to audit engagements.

Engagement Title	Priority & Change	Change Comments
CCTV	High Removed	Fall in activity lowers audit risk
Leisure Contract Management	High Removed	Significant fall in operating hours of facilities lowers audit risk
Equalities	Medium Removed	Removed to focus audit time on higher priority areas
Planning Administration	Medium Removed	Significant fall in application numbers lowers audit risk
Traffic Regulation Orders	Medium Removed	Significant fall in traffic in early part of the year lowers audit risk.
Community Hub Support	High Added	New high profile and spend service delivered at start of the year. Audit will aim to provide assurance on controls within the Hub.
Remote IT Access	High Added	Significant increase in remote access demands with homeworking. Audit will examine arrangements for managing access and keeping systems accessed remotely secure.

MID KENT AUDIT

12. We list below the unchanged engagements on the plan. We are not currently expecting headline changes to these engagements. However we will enquire at planning stage on specific Covid-19 impact, adapting our approach in response. This may result in further changes as the year progresses.

Retained Plan Audit Engagements 2020/21

High Priority Engagements	Medium Priority Engagements
Contract Management	Climate Change
Electoral Registration	Accounts Payable
Rent Deposit Scheme	General Ledger
Rough Sleeper Service	Income Management
Bailiff Service	Project Management
IT Back-Up	Developer Income
Air Quality	Cemeteries
	IT Asset Management
	Pay & Display

13. Our original plan in the Spring expected 100% completion of high priority engagements and 50% of medium priority. Despite our reduced resources we still aim to review all high priority engagements, but will now only review 40% of medium. All engagements noted will remain in our audit universe and be eligible for consideration in future audit plans based on the prevailing risk. Our aim remains to cover the entire audit universe at least once in a five to six year cycle.

Conclusion

14. We will continue to keep the plan under review through the year. I remain able to assure the Committee that we have enough resources to deliver the plan and that we have compiled the plan free from undue influence. We will update Members on progress against the plan later in the year, and keep it under review.

This page is intentionally left blank

Audit Committee Meeting	Agenda Item 6
Meeting Date	30 September 2020
Report Title	Audit Committee Annual Report 2019/20
Cabinet Member	Councillor Roger Truelove – Leader and Cabinet Member for Finance
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer	Russell Heppleston – Deputy Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. That the Audit Committee Annual Report for 2019/20 (appendix I) is agreed. 2. That the Chairman of the Audit Committee presents the report to a meeting of the Full Council to demonstrate how the Committee has discharged its duties.

1 Purpose of Report and Executive Summary

- 1.1 The report details how the Audit Committee has fulfilled its duties effectively during 2019/20. This report provides assurance to the Council that the Committee has monitored and addressed issues of governance, risk management and internal control throughout the year. This report seeks to provide additional assurance to support the Annual Governance Statement.

2 Background

- 2.1 The Audit Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council’s regulatory framework and review and approve the Council’s annual statements of accounts. This report sets out how this has been achieved during 2019/20.

3 Proposal

- 3.1 To agree the Audit Committee Annual Report as attached in Appendix I.
- 3.2 That the Chairman of the Audit Committee presents the report to a meeting of the Full Council setting out how the Committee has discharged its duties.

4 Alternative Options

- 4.1 The production and presentation of an annual report is required by this Committee's terms of reference. Therefore, no other alternative could be recommended.

5 Consultation Undertaken or Proposed

- 5.1 The draft report was sent to the Chairman of the Audit Committee for consultation prior to submission for this meeting.

6 Implications

Issue	Implications
Corporate Plan	None identified at this stage.
Financial, Resource and Property	The role of the Audit Committee includes the review of the financial reports for the Council, including the approval of the Annual Statement of Accounts.
Legal and Statutory	None identified at this stage.
Crime & Disorder	None identified at this stage.
Environmental Sustainability	None identified at this stage.
Health/Wellbeing	None identified at this stage.
Risk Management and Health and Safety	The role of the Audit Committee requires it to consider the effectiveness of the Council's risk management arrangements.
Equality/Diversity	None identified at this stage.
Privacy and Data Protection	None identified at this stage.

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Swale Annual Audit Committee Report 2019/20

8 Background Papers

- 8.1 None

Audit Committee

Annual Report

2019/20



Statement from the Chairman

As the Chair of the Audit Committee, it is my pleasure to introduce the annual report, providing an overview of the Committee's activity during the Municipal Year 2019/20.

This year so far has presented big challenges for the Council following the Covid-19 pandemic, but we have continued throughout to focus our attention on issues we have faced as a Council from a risk, control, and governance perspective. This report looks back and gives us opportunity to reflect on the activity and achievements of the Committee between April 2019 to March 2020.

The Audit Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

During 2019/20 the Committee met four times and I was pleased to note, among the highlights, a further unqualified accounts opinion and value for money conclusion from our external auditors, consideration of the Council's risk management processes and a positive opinion on the Council's control and governance from our internal auditors.

I would like to take this opportunity to thank Committee Members and the Officers that have supported the Committee over the last year. Their professionalism, integrity, and openness have helped us to discuss, challenge and debate key issues and agree solutions and improvements where appropriate to do so.



Councillor Simon Clark – Audit Committee Chairman

Purpose of the Committee

The Audit Committee operates in accordance with the [Audit Committees, Practical Guidance for Local Authorities](#). This guidance was updated in 2018 and is published by the Chartered Institute of Public Finance (CIPFA). This guidance defines the purpose of an Audit Committee as:

Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an Audit Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The Committee is independent from other executive management and the Cabinet, and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix I). This includes direct access to the Council's Appointed Auditors and Head of Audit Partnership without the presence of other Officers, where appropriate.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework, and reviews and approves the Council's annual statements of accounts.

The Committee is not a substitute for the management function in relation to internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

Membership & Meetings

The 2019/20 Audit Committee comprised of 9 members. The following Councillors were Members of the committee at during the year:

Members	
Cllr S Clark (Chairman)	Cllr Knights
Cllr Hall (Vice-Chairman)	Cllr MacDonald
Cllr Carnell	Cllr Marchington
Cllr Fowle	Cllr Saunders
Cllr A Hampshire	

The committee met 4 times in 2019/20:

- [29 July 2019](#)
- [18 September 2019](#)
- [21 January 2020](#)
- [11 March 2020](#)

See Appendix II for full table of meeting attendance.

The Committee is supported throughout the year by senior officers and managers of the Council who are regularly present. Those in regular attendance include the Chief Financial Officer, the Head and Deputy Head of Audit Partnership and Audit Managers.

















In addition, the Council's External Auditors (Grant Thornton) regularly attended meetings of the Audit Committee during 2019/20.

Continued Member development is key to the effective operation of the Audit Committee. During 2019/20, the Committee members were offered a development session on "The Role of the Audit Committee".

All Audit Committee agenda papers and minutes are available on the Council's [website](#).

Activity

Over the course of the year the Committee considered, examined, and made decisions on the following areas within its Terms of Reference:

Internal Audit Activity	Frequency
Internal Audit Annual Report and Opinion for 2018/19	
Internal Audit Charter	
Internal Audit Interim Report for 2019/20	
Internal Audit and Assurance Plan for 2020/21	
Finance Activity	
Annual Financial Report 2018/19 and Audit Findings Report, including Letter of Representation	
Annual Governance Statement for 2018/19	
Annual Treasury Management Review for 2018/19*	
Mid-Year Treasury Management Review 2019/20*	
External Audit Activity	
External Audit Update Report for 2019/20	
External Audit Annual Report for 2018/19	
Fee Letter for 2018/19	
Certification of Claims and Returns for 2018/19	
External Audit Plan for 2019/20	
Other Activity	
Fraud and Compliance Team Annual Report for 2018/19	
Audit Committee Annual Report for 2018/19	
Audit Committee Work Plan	
Annual Risk Management Report 2019/20	
Member Training – The Role of the Audit Committee	

KEY: Annual  Periodically 

*The Audit Committee provides oversight of Treasury Management reports. All Treasury Management reports are approved by Full Council.

Sources of Assurance

In drawing our conclusion this year, to how we have discharged our duties as a Committee, we have considered assurance from the following sources:

The work undertaken by our Internal Audit Partnership

- Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils and has kept the Committee updated on the outcomes of internal audit work throughout the year
- The Council received an unqualified Annual Opinion from the Head of Audit Partnership. This opinion considers the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control arrangements for the Council.
- The Internal Audit plan for 2020/21 included a breakdown of internal audit assurance work for the coming year, and the Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.

Finance and Governance information

- The Committee reviewed and provided challenge on the annual accounts prior to approval and publication and received financial updates throughout the year.
- The annual risk management report provided an update on the effectiveness of the Council's risk management framework and the controls in place to manage the corporate and operational risks.
- The Annual Governance Statement supported the overall conclusion of the Head of Audit Annual Opinion, with actions identified for improvements. The Committee reviewed the Annual Governance Statement and provided challenge prior to approving it. The Committee specifically gained assurance from this document, as it explains the processes and procedures in place to enable the Council to carry out its functions effectively.

The work of our External Auditors – Grant Thornton

- The External Auditors presented an unqualified opinion for the Councils financial statements and value for money conclusion for 2018/19. The Committee provided effective challenge to the External Auditors and gained assurance from the reports and updates provided by Grant Thornton during the year.

Conclusion

The Audit Committee, in partnership with the Council's Internal and External Auditors, and with the support from Officers has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues.

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2019/20 as set out in the respective minutes.

Appendix I

Audit Committee - Terms of Reference

Purpose

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Audit Activity	Regulatory Framework	Accounts
To consider the Head of Audit Partnership's annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements, and any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.	To review any issue referred to it by the Chief Executive or a Director or any Council body. To monitor the effective development and operation of risk management and corporate governance in the Council.	To review and approve the annual statement of accounts. Specifically, to consider whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Cabinet or the Council.
To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the 3 year Strategic Internal Audit Plan.	To monitor council policies on 'Whistleblowing' and the 'Antifraud and Corruption Strategy'.	To consider the external auditor's report to those charged with governance on issues from the audit of the accounts.
To consider the external auditor's annual letter, the report to those charged with governance, and any specific reports as agreed with the external auditor.	To consider and comment on the authority's Annual Governance Statement and agree its adoption as part of the approval of the annual accounts.	To be responsible for ensuring effective scrutiny of the treasury management strategy and policies (Note: Council is responsible for adopting the Treasury Management strategy and policy).
To liaise with the Audit Commission over the appointment of the Council's external auditor, comment on the scope and depth of external audit work and ensure that it gives value for money.	To consider the council's arrangements for governance and whether adequate safeguards are in place to secure compliance with its own and other published standards and controls and best practice.	To present an annual report to the Council providing assurance that the responsibilities of the Committee have been met.

Appendix II

The following tables show the attendance records for all 4 Audit Committee meetings for municipal year 2019/20:

Members	Role	Number of meetings attended
Councillor Clark	Chairman	4
Councillor Hall	Vice Chairman	3
Councillor Carnell	Committee Member	3
Councillor Fowle	Committee Member	4
Councillor A Hampshire	Committee Member	4
Councillor Knights	Committee Member	3
Councillor MacDonald	Committee Member	3
Councillor Marchington	Committee Member	1
Councillor Saunders	Committee Member	3
Councillor Gibson	Visiting Councillor	1
Councillor Horton	Visiting Councillor	3
Councillor Rowles	Visiting Councillor	3
Councillor Davey	Visiting Councillor	2
Councillor R Clark	Visiting Councillor	1

Officers	Capacity	29 Jul 2019	18 Sep 2019	21 Jan 2020	11 Mar 2020
Nick Vickers	Chief Finance Officer	Present	Present	Present	Present
Rich Clarke	Head of Audit Partnership	Present	Present	Present	
Phil Wilson	Chief Accountant	Present			
Russell Heppleston	Deputy Head of Audit Partnership				Present
Alison Blake	Audit Manager			Present	Present
Frankie Smith	Audit Manager	Present			
Phillipa Davies	Committee Services	Present			
Kellie MacKenzie	Committee Services			Present	Present
Jo Millard	Committee Services		Present		
Grant Thornton					
Trevor Greenlee	External Audit	Present		Present	
Darren Wells	External Audit				Present

Agenda Item 7

Audit Committee	Agenda Item: 7
Meeting Date	30 September 2020
Report Title	Annual Treasury Management 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 and Olga Cole, Management Accountant
Key Decision	No
Classification	Open

Recommendations	1. Approve the Treasury Management stewardship report for 2019/20.
	2. Approve the Prudential and Treasury Management Indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The Council's Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year. The latest version of the Code was adopted by the Council in February 2020.
- 1.2 Treasury Management is defined as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council's Treasury Management objectives.
- 1.3 For 2019/20 the Investments Section of the Kent County Council (KCC) Finance Department had operational responsibility for the daily treasury management duties. KCC Finance in undertaking this work had to comply with this Council's Treasury Management Strategy. Overall responsibility for Treasury Management remained with the Council.

1.4 This report:

- is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2019/20; and
- confirms compliance with Treasury limits and Prudential Indicators.

1.5 This report will be submitted to Council on 11 November 2020.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2019	Movement in Year	Balance on 31/3/2020
	£'000	£'000	£'000
Capital Financing Requirement	27,765	+14,196	41,961
Other Liabilities (cost of leases for equipment)	(140)	+140	0
Borrowing Capital Financing Requirement	27,625	14,336	41,961
External Borrowing	(10,000)	(15,000)	(25,000)
Cumulative External Borrowing Requirement	17,625	(664)	16,961

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

2.3 The reason for the increase in the CFR in 2019/20 is due to the capital expenditure on works undertaken as part of the Sittingbourne Town Centre regeneration project which were financed from borrowing. The CFR will be reduced in the future by the Minimum Revenue Provision which will be funded by contributions from rental income.

2.4 In 2019/20, the Council took out four loans of £5 million each, from other local authorities. Two loans were for 12 months at a rate of 1% and 0.95% respectively and the remaining two loans were for 18 months at a rate of 1.25% and 1.1%.

Investment Activity

- 2.5 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2019/20, the Council held average daily cash balances of £33 million, (£28 million for 2018/19).
- 2.6 The Council's budgeted investment income for 2019/20 was £110,000 and the actual income received was £314,000, of which £132,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.
- 2.7 The table below summarises the Council's investment portfolio at 31 March 2020. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2020.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2020 £'000
Invesco MMF	AAAmmf	3,000
JP Morgan MMF	AAAmmf	3,000
SSgA MMF	AAAmmf	2,180
Goldman Sachs MMF	AAAmmf	2,538
Morgan Stanley MMF	AAAmmf	3,000
Black Rock MMF	AAAmmf	3,000
Aberdeen MMF	AAAmmf	3,000
Amundi MMF	AAAmmf	1,520
Sub Total Cash & Cash Equivalents		21,238
CCLA Property Fund	unrated	3,000
Sub Total Long-Term Investments		3,000
Total		24,238

- 2.8 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:
- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

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

Investments	Balance on 31/03/19 £'000	Movement in Year £'000	Balance on 31/03/20 £'000	Average Rate %
Cash and Cash Equivalents	17,990	3,248	21,238	0.95
Long-Term Investments	3,000	0	3,000	4.40
TOTAL INVESTMENTS	20,990	3,248	24,238	
Borrowing				
Long-Term Borrowing	(5,000)	0	(5,000)	1.18
Short-Term Borrowing	(5,000)	(15,000)	(20,000)	0.98
TOTAL BORROWING	(10,000)	(15,000)	(25,000)	

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

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

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

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

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

2.14 The investments permissible by the 2019/20 Treasury Strategy were:

Investment	Limit	Used in 2019/20?
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited	Yes
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m	No
Svenska Handelsbanken unsecured deposits	£3m	No
Leeds Building Society unsecured deposits	£1.5m	No
Close Brothers unsecured deposits	£1.5m	No
Money Market Funds	£3m each	Yes
Pooled Funds e.g. Property REIT's, Absolute return, Equity Income	£3m each	No
CCLA Property Fund	£3m	Yes
Supranational Bonds	£3m in aggregate	No
Corporate Bond Funds and Corporate Bonds	£3m in aggregate	No
Non-Treasury Investments	To be agreed on a case by case basis	Yes
Covered Bonds	£3m in aggregate with £1m limit per bank	No

2.15 This administration takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at low rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget

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

- 2.17 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. At 31 March 2020 the Council held £3.568 million of a longstanding portfolio of 13 investment properties within the borough. These investments generated £0.2 million of investment income for the Council in 2019/20 after taking account of direct costs, representing a rate of return of 6%.

External Context

- 2.18 The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in August 2018 to 0.75%, and this rate was maintained until 10 March 2020 when a special meeting of the Bank's MPC decided to cut the base rate down from 0.75% to 0.25% to counter the "economic shock" resulting from the coronavirus outbreak. The global outbreak of coronavirus had forced the UK Government to take drastic steps to stem the economic impact by reducing the base rate for the second time in a single month from 0.25% to 0.1% on 19 March 2020.

Compliance

- 2.19 The Council has complied with its Prudential and Treasury Management Indicators for 2019/20 which were set as part of the Treasury Management Strategy agreed by Council in February 2019.
- 2.20 In Appendix I the outturn position for the year against each Prudential Indicator is set out.
- 2.21 The Chief Financial Officer confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Treasury Advisers

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

Capital Strategy

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

3. Proposal

- 3.1 Members are asked to approve the report.

4. Alternative Proposals

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

5. Consultation Undertaken

- 5.1 Arlingclose have been consulted.

6. Implications

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

7. Appendices

- 7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2019/20

Introduction

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

This report compares the approved indicators with the outturn position for 2019/20. Actual figures have been taken from or prepared on a basis consistent with, the Council's Statement of Accounts

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

Capital Expenditure and Financing	2019/20 Actual £'000
Total Capital Expenditure	19,099
Capital Receipts	298
Grants and Other Contributions	3,098
Reserves	873
Borrowing	14,830
Total Financing	19,099

Treasury Management and Prudential Indicators for 2019/20

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

Capital Financing Requirement	31/03/20 Estimate	31/03/20 Actual	31/03/20 Difference
	£'000	£'000	£'000
Total CFR	42,475	41,961	(514)
Less: Other Liabilities	0	0	0
Borrowing CFR	42,475	41,961	(514)
External Borrowing	(5,000)	(25,000)	(20,000)
Cumulative External Borrowing Requirement	37,475	16,961	(20,514)

External borrowing: as at 31 March 2020 the Council had £25 million of external borrowing.

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

Operational Boundary and Total Debt	31/03/20 Boundary	31/03/20 Actual Debt	Complied
	£'000	£'000	
Borrowing	55,000	25,000	✓
Other Long-Term Liabilities	500	0	✓
Total Operational Boundary	55,500	25,000	✓

Treasury Management and Prudential Indicators for 2019/20

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

Authorised Limit and Total Debt	31/03/20 Boundary	31/03/20 Actual Debt	Complied
	£'000	£'000	
Borrowing	60,000	25,000	✓
Other Long-Term Liabilities	2,000	0	✓
Total Authorised Limit	62,000	25,000	✓

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2019/20.

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

Ratio of Financing Costs to Net Revenue Stream	31/03/20 Estimate	31/03/20 Actual	Difference
	%	%	%
General Fund Total	3.2	2.78	0.42

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

Interest Rate Exposures	31/03/20 Actual	2019/20 Limit	Complied
	%	%	
Interest on Fixed Rate Investments	0	-100	✓
Interest on Variable Rate Investments	-100	-100	✓
Interest on Fixed Rate Borrowing	100	100	✓
Interest on Variable Rate Borrowing	0	100	✓

Treasury Management and Prudential Indicators for 2019/20

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

	31/03/20 Actual	Upper Limit	Lower Limit	Complied
	%	%	%	
Under 12 months	80	100	0	✓
12 months and within 24 months	20	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

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

	2019/20 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Investment Benchmarking

Average Actual Return on Investments 2019/20	Original Estimate Return on Investments 2019/20	Average Bank Rate 2019/20	Average 7-day LIBID Rate 2019/20
0.95%	0.40%	0.72%	0.53%

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

This page is intentionally left blank

Audit Committee Meeting	
Meeting Date	30 th September 2020
Report Title	Audit Committee Risk Management Update
Cabinet Member	Cllr Roger Truelove - Leader of the Council
SMT Lead	Nick Vickers – Chief Finance Officer
Head of Service	Russell Heppleston – Deputy Head of Audit Partnership
Lead Officer	Alison Blake – Audit Manager
Key Decision	No
Classification	Open
Recommendations	1. That the Audit Committee notes the Council's Corporate Risks and actions to manage those risks.

1 Purpose of Report and Executive Summary

- 1.1 As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of process to manage the Council's risks. We reported on this in March 2020, however at the time the Corporate Risks were in the process of being drafted and agreed.
- 1.2 The purpose of this report is to provide information to members of the Audit Committee on the Council's Corporate Risks. The report also provides detail on how operational level risks will be reviewed and updated.
- 1.3 The report attached in Appendix I provides an overview of the Council's Corporate Risks.

2 Background

- 2.1 The Council's Risk Management Framework was originally agreed in 2015 and the first corporate risk workshop held in early 2016. Since then corporate and operational risks have been routinely monitored, updated and reported to Senior Management Team (SMT) and Members, and risk processes have been refined. The first full review of the Risk Management Framework was undertaken in early 2019 and the framework was updated to reflect existing risk practices and enhance the process.
- 2.2 Following the start of the new administration a corporate risk workshop was held in the summer of 2019. This identified an initial list of possible Corporate Risks. Once the new corporate priorities and objectives were drafted SMT reviewed this

list and the existing Corporate Risks and identified a set of new risks for discussion. These risks have been discussed with members of SMT to refine and assess them in line with the Risk Management Framework.

- 2.3 The corporate risk register reflects the current circumstances facing the Council and the effects of Covid-19, while maintaining focus on delivery of the Councils priorities. A separate risk relating to Covid-19, or pandemics, has not been included at present as this is an issue that the Council is currently managing, and risk deals with future uncertain events. As outlined in the draft Recovery Plan this recovery is unique and uncertain, and 'business as usual' is likely to look very different. As circumstances develop and more information becomes available consideration will be given to how the Council captures and monitors risks of this nature.

3 Proposals

- 3.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.
- 3.2 We therefore propose that the Committee notes the Corporate Risks and the actions planned to manage these risks.

4 Alternative Options

- 4.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.
- 4.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.

5 Consultation Undertaken or Proposed

- 5.1 The risk management framework was designed through consultation with SMT and more broadly through consultation with Heads of Service.
- 5.2 Risk owners have been involved in the identification and assessment of the risks on the register.

6 Implications

Issue	Implications
Corporate Plan	Effective risk management is part of the Council's governance framework. The purpose of the risk management process is to ensure that key risks are identified and appropriately managed as the Council pursues its Corporate objectives.
Financial, Resource and Property	Investment in developing risk management arrangements are being met from existing resources within the Mid Kent Audit partnership. No implications identified at this stage.
Legal, Statutory and Procurement	None identified at this stage
Crime and Disorder	None identified at this stage
Environment and Climate/Ecological Emergency	None identified at this stage
Health and Wellbeing	None identified at this stage
Risk Management and Health and Safety	This report is about risk management. No H&S implications identified at this stage.
Equality and Diversity	None identified at this stage
Privacy and Data Protection	None identified at this stage

7 Appendices

- 7.1 The following documents are to be published with this report and form part of the report:
- Appendix I: Corporate Risk Register

8 Background Papers

- Risk Management Framework

This page is intentionally left blank

MID KENT AUDIT

Corporate Risk Register

Audit Committee

September 2020



Introduction

Risk Management Process

Effective risk management is a vital part of the Council's governance and contributes greatly to the successful delivery of services and key priorities. The Council has always recognised and supported the need to have effective processes to identify, evaluate and manage risks. These processes are set out in the Risk Management Framework.

A risk is a potential future event that, if it materialises, has an effect on the achievement of our objectives.

To be effective in achieving its' ambitions, the Council must ensure that it identifies, prioritises and manages events that could occur in the future. Risk management at Swale includes the following key parts which are detailed in the Risk Management Framework. A further summary of the process is included in Appendix B.



We identify risks at principally at two levels:

Corporate Level Risks - By definition, these are risks that are more strategic in nature, and therefore usually have a higher impact as they effect multiple services. Risks at this level threaten the achievement of the Council's Corporate objectives.

Operational risks - These risks link more directly with our day to day work. However, we recognise these risks nonetheless have potential for significant impact. Annual service planning identifies most of the operational risks, but services add, remove or adjust the risks during the year.

Risks are evaluated based on the likelihood that the risk event will occur and the impact to the Council should the event happen. The Risk Management Framework sets out the criteria for assessing impact and likelihood which helps to ensure a consistent approach across the Council. The criteria are set out in Appendix A.

Risk tolerance

The impact and likelihood assessments determine the risk score and this in turn influences how the Council will respond to the risk. Risk tolerance is the extent of risk the Council is willing to accept before seeking to take action to address or manage risks to a 'safer' level. The tolerance for the Council is the **red** and **black** risks. The Council seeks to manage such risks downwards. If this is impossible, instead the Council seeks to monitor more closely developments and planned actions.

Risk Reporting

A key part of risk management is the review and reporting of key risks. Having valuable and up to date risk information allows for both the management and oversight functions to happen effectively.

We (Mid Kent Audit) facilitate the co-ordination and embedding of risk management processes across the Council. We report corporate and high level operational (**red** and **black**) risks quarterly to SMT. **Amber** risks are reviewed and reported on a six-monthly basis and all other risks are reviewed as circumstances change or at least annually.

The role of Cabinet, as the executive, is to check on individual risks to ensure management exercise proper oversight and action. To help this role we report risk to Informal Cabinet twice a year, including all corporate and high-level operational risks.

The Audit Committees' role is to provide oversight of the overall risk management process, ensuring the processes is effective. To facilitate this we report annually on how the process has operated during the year and provide details of the Council's corporate risks.

Corporate Risks

As detailed the Councils' Corporate Risks have undergone a complete review and refresh. While some risks have remained on the register, those not relevant to the Councils' new priorities have been removed and new risks have been added. The following tables show the corporate risks before the review and once the new register was adopted by Cabinet in June 2020.

Corporate Risk Register June 2019

Corporate Risk Register June 2020

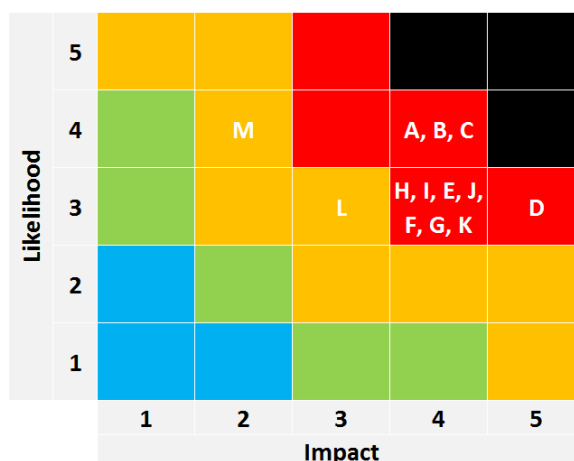
Risk Description		Ref	Risk Description
Local Plan		A	Housing Supply
Homelessness		B	Homelessness
Skills Gap (Borough)		C	Design of Major Contracts NEW!
Funding Restrictions		D	Financial Restrictions
Transport Infrastructure		E	Borough Wide Infrastructure
Air Quality Action Plan		F	Climate & Ecological Emergency
Emergency Plan		G	Swale House Refurbishment NEW!
Cyber Security Incident		H	Cyber Security Incident
Recruitment & Retention		I	Focus on Established Priorities NEW!
General Data Protection Regulation		J	Affordable Housing NEW!
STC Delivery		K	Major Contractor Failure or Decline NEW!
Business Transformation		L	Funding Capital Spend NEW!
Partnerships (Internal)		M	Managerial Leadership NEW!

KEY

- Risk removed from corporate register
- Risk expanded or modified to reflect current circumstances
- Risk updated and kept on new corporate register

The following diagram sets out the new Corporate Risk profile, which is to say the score of each corporate risk plotted onto a risk matrix. The risk score is based on the **current** risk, meaning the risk to the Council as at September 2020 assuming all existing controls work as expected to manage the risk. The detail of each corporate risk is set out on the next page.

Corporate Risks - Current Risk Rating (September 2020)



Corporate Level Risks

The table below provides the details of each corporate risk. This includes the **current** risk rating which factors in the key existing controls. Planned controls are then identified which, when complete, will manage the risk to an acceptable level (the **mitigated** rating).

Corporate Priority	Risk Description	Risk Owners	Key Existing Controls	Current Rating (I x L)	Planned Controls	Mitigated Rating (I x L)
Overarching	<p>Financial Restrictions</p> <p>We are unable to match the delivery of coalition priorities and core Council services to funding levels in the context of the Coronavirus crisis and ongoing funding</p>	Roger Truelove & Nick Vickers	<ol style="list-style-type: none"> 1) Budget setting & monitoring process and Medium Term Financial Plan 2) Awareness of proposed changes to local government finance 3) Information sharing at Chief Finance Officers and Chief Accountants Groups 4) Use of specialist local government financial consultants 5) Reserves strategy 6) Income generation initiatives 7) Ongoing regular reporting to SMT and the Leader 	(5 x 3) 15	<ol style="list-style-type: none"> 1) Work with Cabinet & deputies and SMT on priorities for funding 2) Work with the new member group 3) Expenditure controls 	(4 x 3) 12
Overarching	<p>Funding Capital Spend</p> <p>Delivery of coalition priorities requires capital spend which cannot be accommodated within the revenue budget.</p>	Roger Truelove & Nick Vickers	<ol style="list-style-type: none"> 1) Revenue implications of capital explicitly funded through revenue budget 2) Liaison with commercial tenants 	(3 x 3) 9	<ol style="list-style-type: none"> 1) All capital projects to have business case agreed by Cabinet 2) Capital schemes may generate new revenue income streams 3) Generation of capital receipts through selling assets 4) North Kent Pooled Business rate fund- to meet capital costs 5) Work more closely with commercial tenants 	(3 x 2) 6
Overarching	<p>Cyber Security Incident</p> <p>Security breach or system weakness leads to cyber-attack that results in system unavailability and financial or legal liability.</p>	Roger Truelove & Steve McGinnes	<ol style="list-style-type: none"> 1) Regular backup programmes 2) External testing 3) ICT policies & staff training, including disaster recovery plan 4) Cyber security testing & training 5) Nessus scanning software reporting daily on system vulnerabilities 	(4 x 3) 12	<ol style="list-style-type: none"> 1) 3rd Cyber awareness campaign September 2020 2) Deploying Darktrace enterprise cyber immune system 3) New firewall to be in place by December 2020 4) Upgrade to backups by October 2020 	(4 x 2) 8

Corporate Priority	Risk Description	Risk Owners	Key Existing Controls	Current Rating (I x L)	Planned Controls	Mitigated Rating (I x L)
Overarching	Focus on established priorities Emerging issues and short-term initiatives dissipate resources away from statutory responsibilities and established priorities, inhibiting the Council's ability to deliver on the administration's medium-term objectives.	Roger Truelove & SMT	<ol style="list-style-type: none"> 1) Agreed corporate plan lists 20 detailed medium-term objectives 2) Service planning process for 2020/21 designed to relate activity more explicitly to resources and priorities 3) Regular one-to-one meetings between cabinet members, deputies and heads of service 4) Robust budget-setting process 	(4 x 3) 12	<ol style="list-style-type: none"> 1) New cabinet subgroups to drive forward work on key priorities 2) Single CLT member identified to monitor/coordinate cross-cutting work on each corporate-plan objective 3) Annual report process to be focused on corporate-plan objectives 	(4 x 2) 8
Priority 1 - Building the right homes in the right places and supporting quality jobs for all	Borough wide Infrastructure Infrastructure programmes don't align to the local plan review and fail to make a robust case for public funding and / or to support development proposals that create sustainable communities	Mike Baldock, James Freeman & Charlotte Hudson	<ol style="list-style-type: none"> 1) Regular communication with developers, KCC, Kent CCG and infrastructure agencies (i.e. highways) government 2) Independent specialist advice / support to work on viability / realistic development modelling 3) Pursue funding opportunities/lobby agencies and Government/support delivery agencies to progress schemes 	(4 x 3) 12	<ol style="list-style-type: none"> 1) Continue to strengthen relationships and communications with developers 2) Exploring development strategy options in the review Local Plan to support local bids and funding 3) Revised design for Junction 5 received from Highways England and being pursued - although funding gap has arisen 4) Pursue private sector funding streams 	(3 x 3) 9
Priority 1 - Building the right homes in the right places and supporting quality jobs for all	Affordable Housing Limitations in funding and market interest result in failure to develop a good quality, viable project for the delivery of affordable housing	Ben Martin & Charlotte Hudson	<ol style="list-style-type: none"> 1) Access to expert consultancy and legal advice 2) Strong relationships with RPs that develop in Swale 3) Capital funding agreed by Council 4) SBC Landholdings identified to support the project 5) Review of best practice 6) Initial scoping and viability work undertaken on landholdings 	(4 x 3) 12	<ol style="list-style-type: none"> 1) Available sources of funding being reviewed 2) Testing the market for possible partners 3) Review of best practice elsewhere 4) Create Local Housing Company 5) Monitor market for land acquisitions 6) Acquire suitable land to enable development of Affordable Housing 	(4 x 2) 8
Priority 1 - Building the right homes in the right places and supporting quality jobs for all	Housing Supply Council continues not to deliver the 5year housing supply leading to increased ad hoc greenfield planning applications and potential appeals costs	Mike Baldock & James Freeman	<ol style="list-style-type: none"> 1) Provision of a sound evidence base to support the Council's proposals for housing delivery 2) Review progress against the Local Plan requirements and implement actions through housing delivery action plan 	(4 x 4) 16	<ol style="list-style-type: none"> 1) Build evidence base to support Council's approach to housing delivery in Local Plan 2) Promote sites with early delivery programmes, e.g. park homes proposals etc 3) Produce Housing Delivery Action Plan and review annually whilst dealing with lack of 5year supply issue 	(4 x 2) 8

Corporate Priority	Risk Description	Risk Owners	Key Existing Controls	Current Rating (I x L)	Planned Controls	Mitigated Rating (I x L)
Priority 1 - Building the right homes in the right places and supporting quality jobs for all	<p>Homelessness</p> <p>National increases in homelessness and recommissioning of housing support services create additional workload and increased cost burden for the Council.</p>	Ben Martin & Charlotte Hudson	<ol style="list-style-type: none"> 1) Continue housing providers negotiation over temporary accommodation costs 2) Close working with social housing partners to maximise social housing delivery / options 3) Supporting developers / using influence to unlock opportunities to provide additional social housing 4) Council purchase of properties to use as temporary accommodation 5) Defined landlord incentive scheme and close working with landlords to incentivise private sector-housing options 6) Forecasting of homelessness spend as part of ongoing budget monitoring and medium term financial planning 7) Creation of a Homelessness Prevention Team 8) Continued monitoring and forecasting of trends to understand real impact 9) Bid submitted to MHCLG Next Steps Accommodation Programme to extend accommodation for rough sleepers and provide move on accommodation 	(4 x 4) 16	<ol style="list-style-type: none"> 1) Housing Options considering opportunities for using potentially void accommodation as temporary accommodation to address decommissioning of some KCC funded supported housing schemes 2) Adjustment made to 2020/21 budget to ensure matches demand for temporary accommodation, however impact of Covid is greater than this 3) Reviewing Housing Allocations Policy to take into consideration homeless households – out to consultation 4) Undertake a tender process for provision of temporary accommodation 5) Increasing supply of affordable housing to increase rental supply 	(3 x 4) 12
Priority 2- Investing in our environment and responding positively to global challenges	<p>Climate & Ecology Emergency</p> <p>The Council is unable to deliver the climate & ecological emergency motion agreed at Council in June 2019</p>	Tim Valentine, Nick Vickers & Martyn Cassell	<ol style="list-style-type: none"> 1) Climate & ecology emergency Member / officer steering group established 2) Carbon Trust report identifies areas of focus 3) Annual report to Council to monitor progress 	(4 x 3) 12	<ol style="list-style-type: none"> 1) Corporate action plan being developed (April 2020) 2) Swale House refurbishment 3) New Local Plan 	(3 x 3) 9
Priority 2- Investing in our environment and responding positively to global challenges	<p>Swale House Refurbishment</p> <p>The refurbishment of Swale House does not achieve objectives and / or is not delivered within budget / on time.</p>	Monique Bonney & Nick Vickers	<ol style="list-style-type: none"> 1) Carbon Trust report includes carbon emissions for the building to help identify improvements 2) Office waste contract tender exercise includes value and supports objectives 3) Participation in Climate & Ecological Emergency group 4) OnePublic estate (Pellings) review of building 	(4 x 3) 12	<ol style="list-style-type: none"> 1) Agree funding for feasibility study (Cabinet March 2020) and commission consultant to undertake the work 2) Report to Cabinet detailing the options, a forward plan and costings 	(3 x 3) 9

Corporate Priority	Risk Description	Risk Owners	Key Existing Controls	Current Rating (I x L)	Planned Controls	Mitigated Rating (I x L)
Priority 4 - Renewing local democracy and making the council fit for the future	Managerial Leadership The absence of a Chief Executive and general lack of senior management capacity lead to sub-optimal leadership with adverse effects on staff engagement and organisational performance and self-awareness	Roger Truelove & SMT	1) TeamTalk and Staff Briefings 2) Awards event to recognise staff achievements and work 3) Leadership profile of SMT members 4) Role of the broader Corporate Leadership Team	(2 x 4) 8	1) Recruitment of a new Chief Executive now commenced 2) Acting up arrangements to continue until the Chief Executive is in post	(2 x 4) 8
Priority 2- Investing in our environment and responding positively to global challenges	Major Contractor Failure or Decline Contractor financial difficulties in general or impacts from COVID-19 result in existing suppliers not delivering as per the contract. This results in the Council not getting the anticipated level of service or at its worst a complete failure in the service / company insolvent.	Roger Truelove, Tim Valentine, Angela Harrison & Martyn Cassell	1) Robust tender process 2) Contracts in place and regularly monitored 3) Annual reconciliation of invoices paid to contractors 4) Regular dialogue with contractors and use of performance mechanisms 5) Awareness of industry developments and best practice	(4 x 3) 12	1) Increased discussions with contractors around the impact of COVID-19 2) Ensuring government guidelines on payment of contractors is followed 3) Routine financial checks	(4 x 2) 8
Priority 2- Investing in our environment and responding positively to global challenges	Design of Major Contracts Changes in political direction (central and local) or service specification result in significant changes in how major contracts are delivered when the contract expires (e.g. grounds maintenance and waste). This has significant financial consequences for the Council.	Roger Truelove Tim Valentine, Angela Harrison & Martyn Cassell	1) Robust tender process that includes the early identification of contracts approaching the end of their term 2) Availability of specialist consultants for market research 3) Early engagement with Members on future policy direction 4) Awareness of central government legislative changes	(4 x 4) 16	1) Review potential methods of operation, including researching approaches adopted by other local authorities 2) Consultant engaged for grounds maintenance and waste contracts to provide guidance on financial implications and meeting industry standards 3) Member engagement planned for key points in the process to ensure early decision making 4) Early market testing to support financial predictions	(3 x 4) 12

General Update & Next Steps

We continue to receive a great deal of positive engagement and support from Senior Officers and Managers in the Council. So, we'd like to take this opportunity to thank officers for their continued work and support.

Risk management is a continuous process, and to be valuable it must be updated and maintained. The following two areas will be focussed on over the coming months:

1. **Operational Risk Registers:** Due to changes in both Internal Audit and Officers priorities over the last 6 months the review of operational risk registers alongside service planning has not taken place. We will look to undertake a complete refresh of the operational risk registers during September / October 2020. Once complete routine monitoring and reporting of these risks can resume, including reporting the overall risk profile for the Council to Members.
2. **Risk Management Software:** Work is underway to explore obtaining a risk management system to replace the current spreadsheet process. This will give us greater functionality in updating and reporting on risks and free up time to further develop other aspects of risk. We have identified a potential system that we can use and are in the process of developing a plan for its implementation.

Many thanks for your time and consideration in receiving this update and I look forward to discussing the content with you.

Alison Blake

Audit Manager

alison.blake@midkent.gov.uk

Tel: 01622 602020

Definitions for Impact and Likelihood

Risks are assessed by risk owners for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following definitions are included in the Risk Management Framework and have been used to inform the assessment of risks on the comprehensive risk register.

RISK IMPACT

Level	Service	Reputation	H&S	Legal	Financial	Environment
Catastrophic (5)	Ongoing failure to provide an adequate service	Perceived as a failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment	Uncontrollable financial loss or overspend over £1.5m	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor Service, 5+ days disruption	Significant adverse national publicity	Fails to prevent death, causes extensive permanent injuries or long term sick	Litigation expected and uncertain if defensible Breaches of law punishable by significant fines	Financial loss or overspend greater than £100k	Long term major public health or environmental incident (1+ yrs)
Moderate (3)	Unsatisfactory performance Service disrupted 3-5 days	Adverse national publicity of significant adverse local publicity	Fails to prevent extensive permanent injuries or long term sick	Litigation expected but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1 yr)
Minor (2)	Marginal reduction in performance Service disrupted 1-2 days	Minor adverse local publicity	Medical treatment required Long term injuries or sickness	Complaint or litigation possible Breaches of regulations or standards	Financial loss or overspend greater than £20k	Short term public health or environmental incident (weeks)
Minimal (1)	No performance reduction Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £20k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Level	Probability	Description
Almost Certain (5)	90% +	Without action is likely to occur; frequent similar occurrences in local government / Council history
Probable (4)	60% - 90%	Strong possibility; similar occurrences known often in local government / Council history
Possible (3)	40% - 60%	Might occur; similar occurrences experienced in local government / Council history
Unlikely (2)	10% - 40%	Not expected; rare but no unheard of occurrence in local government / Council history
Rare (1)	0% - 10%	Very unlikely to occur; no recent similar instances in local government / Council history

Risk Management Process Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review																																													
<p>Best done in groups, by those responsible for delivery objectives.</p> <p>RISK is a <i>potential future</i> event that, if it materialises, has an <i>effect</i> on the achievement of our objectives.</p> <p>Consider both threats and opportunities.</p> <p>When to consider:</p> <ul style="list-style-type: none"> Setting business aims and objectives Service planning Target setting Partnerships & projects Options appraisal <p>Establish the risk owner.</p> <p>Document in the risk register.</p>	<p>Combination of the impact and likelihood of an event (the CURRENT RISK).</p> <p>Impact score is the highest from the different categories.</p> <p>Establish your key existing controls and whether they are managing the impact and/or likelihood of the risk.</p> <p>Scores can be depicted in the risk matrix:</p> <table border="1" data-bbox="629 901 1106 1257"> <tr> <td rowspan="5">Likelihood</td> <td>5</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Black</td> <td>Black</td> </tr> <tr> <td>4</td> <td>Green</td> <td>Yellow</td> <td>Red</td> <td>Red</td> <td>Black</td> </tr> <tr> <td>3</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Red</td> </tr> <tr> <td>2</td> <td>Blue</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Yellow</td> </tr> <tr> <td>1</td> <td>Blue</td> <td>Blue</td> <td>Green</td> <td>Green</td> <td>Yellow</td> </tr> <tr> <td></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5	Yellow	Yellow	Red	Black	Black	4	Green	Yellow	Red	Red	Black	3	Green	Yellow	Yellow	Red	Red	2	Blue	Green	Yellow	Yellow	Yellow	1	Blue	Blue	Green	Green	Yellow			1	2	3	4	5			Impact					<p>Black – Above our <i>tolerance</i>, immediate action and reporting to directors.</p> <p>Red – Outer limit of our <i>appetite</i>, immediate action.</p> <p>Amber – Medium risk, review existing controls.</p> <p>Green – Low risk, limited action, include in plans.</p> <p>Blue – Minimal risk, no action but annual review.</p> <p>Risk Response – 4Ts</p> <ul style="list-style-type: none"> Treat (i.e. apply controls) Tolerate (i.e. accept risk) Transfer (e.g. insurance / partnership) Terminate (i.e. stop activity) <p>After your response; where does the risk score now? (the MITIGATED RISK)</p>	<p>Completed risk registers returned to Mid Kent Audit.</p> <ul style="list-style-type: none"> Senior Management Team monthly monitoring of black risks. Quarterly reporting of all high level (black and red) risks. 6-monthly monitoring at Informal Cabinet. Annual monitoring of process by Audit Committee. <p>Mid Kent Audit facilitate the review and update of risk actions (as per your risk register) during the year for and high-level (red / black) risks.</p>
Likelihood	5		Yellow	Yellow	Red	Black	Black																																									
	4		Green	Yellow	Red	Red	Black																																									
	3		Green	Yellow	Yellow	Red	Red																																									
	2		Blue	Green	Yellow	Yellow	Yellow																																									
	1	Blue	Blue	Green	Green	Yellow																																										
		1	2	3	4	5																																										
		Impact																																														

This page is intentionally left blank

External Audit Plan update

Year ending 31 March 2020

Swale Borough Council
August 2020



Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Swale Borough Council ('the Council'), as reported in our Audit Plan dated March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan dated March 2020 recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remain uncertain. For our public sector audited bodies we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit the deadline for the preparation of financial statements has been extended to 31 August 2020 and for the publication of audited financial statements to 30 November 2020. We continue to be responsible for forming and expressing an opinion on the Council's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22.

Changes to our audit approach

To date we have:

- identified a new significant financial statement risk, as described overleaf
- reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. In our Audit Plan we identified a significant VfM risk relating to financial sustainability. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report.

Significant risks identified – Covid-19 pandemic

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Covid – 19</p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation; - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates; - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We have therefore identified the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arise • evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

This page is intentionally left blank

Audit Progress Report and Sector Update

Swale Borough Council
Year ending 31 March 2020
September 2020

Page 105



Contents

Section	Page
Introduction	3
Progress at September 2020	4
Audit Deliverables	6
Sector Update	7

Introduction



Darren Wells

Engagement Lead

T 01293 554120
M 07880 456152
E darren.j.wells@uk.gt.com

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

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

Page 107



Trevor Greenlee

Engagement Manager

T 01293 554071
M 07880 456148
E trevor.greenlee@uk.gt.com

Progress at September 2020

Financial Statements Audit

Update to 2019-20 Audit Plan: Covid 19

We undertook our initial planning for the 2019/20 audit in early 2020. Our detailed audit plan setting out our proposed approach to the audit of the Council's 2019/20 financial statements was reported to the March Audit Committee.

We have now updated our planning risk assessment in the light of the Covid-19 pandemic. We issued an update to our audit plan in August 2020. This update has identified a new significant financial statements risk in relation to Covid-19.

Our External Audit Plan update is included as a separate item on today's agenda.

Covid-19: Impact on working arrangements

Our year end accounts audit started in August 2020.

The pandemic has had an impact on the wider working arrangements for our audit, as both the audit team and the Council's finance team are currently working from home.

Although there are some audit tasks which are best undertaken in person, we anticipate that we will be able to complete our audit work remotely. However, there may be individual tasks where if physical access is not possible we will need to liaise with management to agree on an alternative approach.

A remote working environment is likely to mean that the audit process takes longer, particularly with regard to obtaining sufficient, appropriate audit evidence. We will continue to work closely with your finance team to make the current working arrangements as efficient as possible.

Our Audit Findings Report will be presented to the November Audit Committee.

Value for Money

The scope of our value for money work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The NAO guidance for 2019/20 confirms that the overall criterion remains that: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub-criteria which auditors consider in arriving at an overall conclusion are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will report our value for money work in the Audit Findings Report and issue our Value for Money Conclusion at the same time as the audit opinion. We will review the Council's response to the financial implications of Covid 19 as part of our work.

NAO – Code of Audit Practice

The NAO consultation on a new Code of Audit Practice (the "Code") has finished and the new Code has completed its approval process in Parliament. The new Code is applicable for the 2020/21 and following audit years. It supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report containing a commentary on arrangements to secure value for money and any associated recommendations. Further detail on the changes is included at page 8 of this progress report.

Progress at September 2020

Audit Fees

In our March 2020 audit plan we noted the impact of a number of wider developments within the accounting and audit profession, including;

- the expectations of the Financial Reporting Council (FRC) for improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.
- areas where our work had highlighted the need for improvements in financial reporting, in particular property, plant and equipment and pensions
- an increase in the complexity of Local Government financial transactions and financial reporting.

As a result we noted that in agreement with PSAA we would be seeking approval to secure additional fees to reflect the increased level of audit work required to discharge our responsibilities. Our 2019/20 audit plan included fee variations of £7500 in addition to the scale fee of £46,769.

We can confirm that PSAA have now given their approval in principle to the proposed fee variations for 2019/20.

Events

We provide a range of workshops, networking events and publications to support the Council.

Your officers attended our local Financial Reporting Workshop in February.

Sector Update

Covid-19

An update on the impact of the current pandemic on local authorities is included from page 9.

Publications

Details of publications that may be of interest to the Council are included from page 15.

Redmond review

The Redmond review on local authority audit was published on 8 September 2020. The report's recommendations include;

- a new regulator - the Office of Local Audit and Regulation will be created to manage, oversee and regulate local audit, replacing the roles of the FRC and PSAA
- the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- revisions to the current fee structure for local audit to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the role of authorities in improving governance and reporting and
- development of audited and reconciled accounts summaries.

An article by Jon Roberts, head of public policy audit at Grant Thornton, on the outcomes from the review can be found via the link below.

<https://www.publicfinance.co.uk/opinion/2020/09/redmond-review-provides-blueprint-sustainable-audit>

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	Complete
<p>Audit Plan - Addendum</p> <p>An addendum to our audit plan has been issued which considers the impact of the Covid 19 pandemic on our audit.</p>	September 2020	Included as an item on today's agenda
<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. Our work will now be reported to the November Audit Committee.</p>	November 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>	November 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>	December 2020	Not yet due

Sector Update

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

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

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

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

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

Public Sector

Local
government

NAO – New Code of Audit Practice

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VFM where there was a potential significant risk and reporting was by exception.

Under the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on value for money. It is required to contain:



The 'Commentary on arrangements' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations : Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with senior managers shortly.

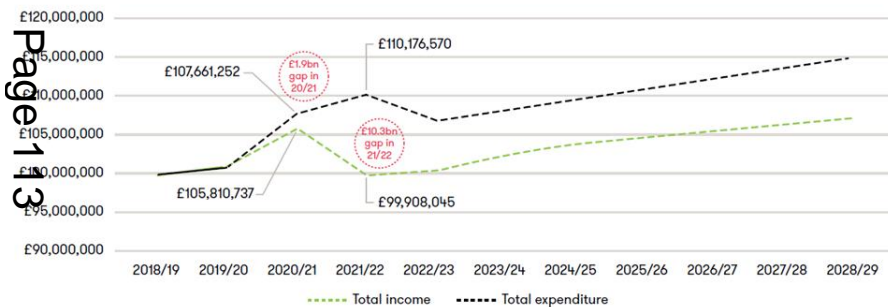
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

and support the vulnerable, whatever scenarios play out in the medium term.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counterbalance the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

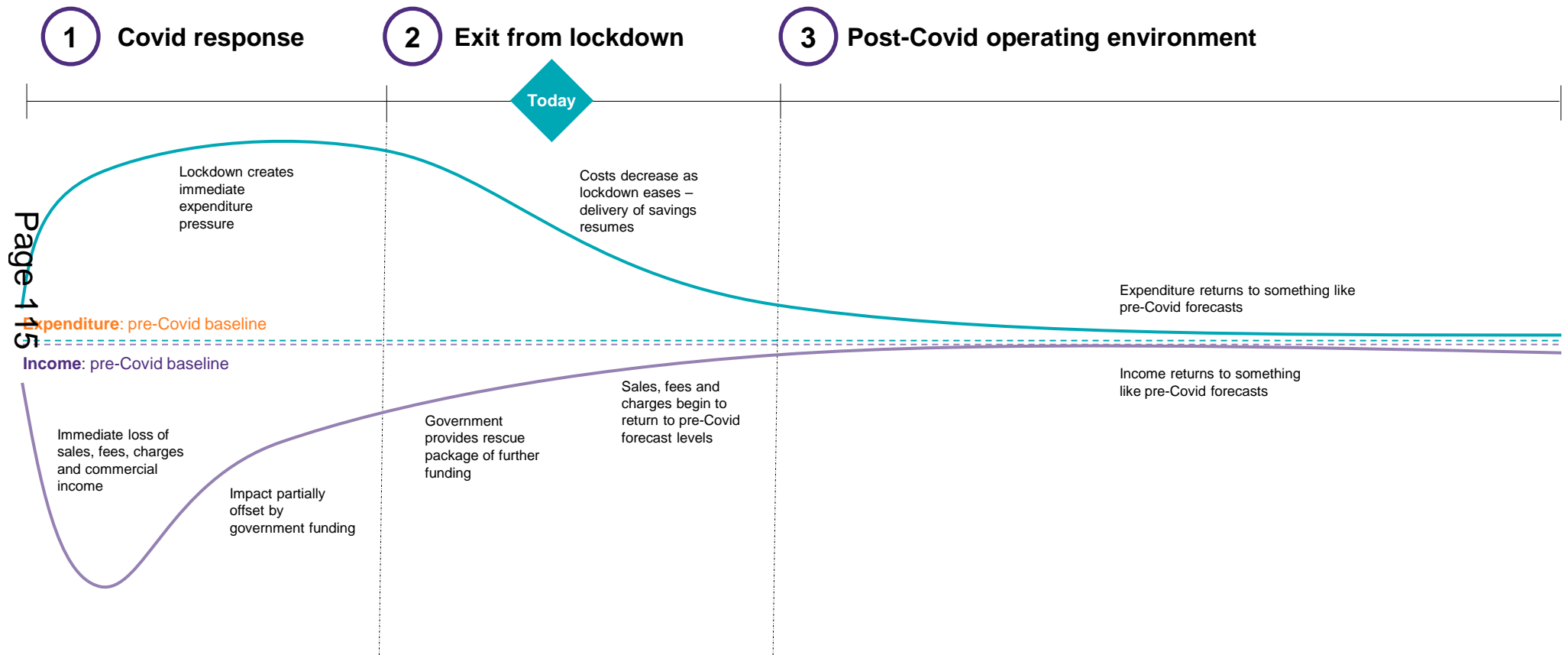
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

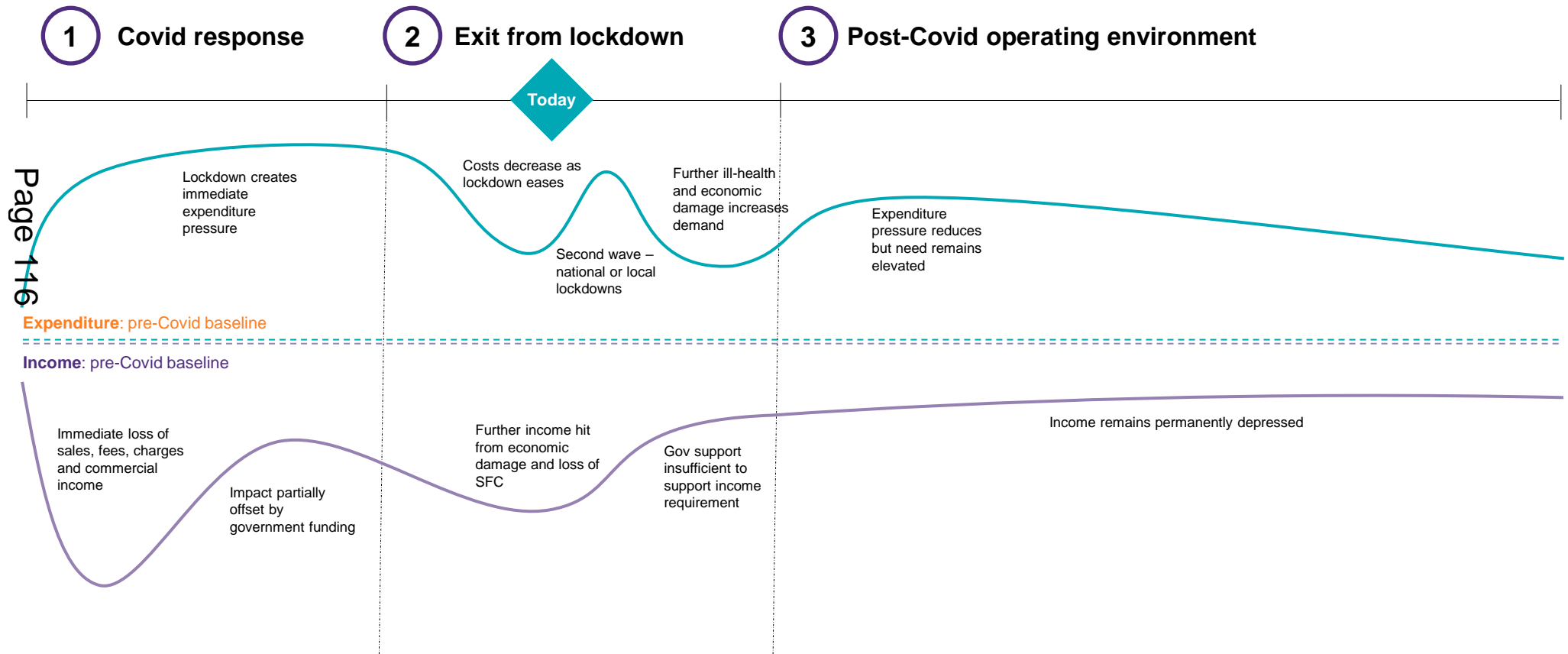
Example scenarios

Scenario 1 – swift return to normality









Example scenarios (Cont'd)

Scenario 2 – second wave and ongoing disruption



Scenarios and hypotheses

Local authority areas in 12-24 months?

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

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

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

Steering towards the best case

Invest in renewal

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

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?

Page 120

Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>



Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what is delivered today).

A full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

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

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



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor’s competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”



The Practice Aid can be obtained from the FRC website:

<https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf>

Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

Page 125

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

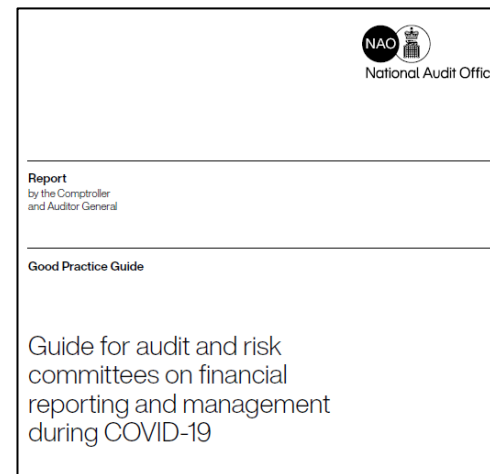
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

This page is intentionally left blank