



AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 10 March 2021

Time: 7.00 pm

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 to the website after 4pm on Tuesday 9 March 2021.

Privacy Statement

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

To approve the [Minutes](#) of the Meeting held on 25 November 2020

(Minute Nos. 271 - 276) as a correct record.

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.	Internal Audit Plan 2021/22	3 - 34
5.	Annual Risk Management Report	35 - 58
6.	2019/20 Annual Audit Letter	59 - 76
7.	Audit Progress Report	77 - 92

Issued on Monday, 1 March 2021

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

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

Audit Committee Meeting		Agenda Item 4
Meeting Date	10 March 2021	
Report Title	Internal Audit & Assurance Plan 2021/22	
Cabinet Member	Cllr Roger Truelove, Leader of the Council	
SMT Lead	Nick Vickers – Chief Financial Officer	
Head of Service	Rich Clarke – Head of Audit Partnership	
Lead Officer	Rich Clarke – Head of Audit Partnership	
Key Decision	No	
Classification	Open	
Recommendations	<ol style="list-style-type: none"> 1. Approve the Internal Audit & Assurance Plan for 2021/22. This includes delegating to the Head of Audit Partnership authority to keep the plan current as set out in the appendix. 2. Note the Head of Audit Partnership’s view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion. 3. Note the Head of Audit Partnership’s assurance that the plan is compiled independently and without inappropriate influence from management. 	

1 Purpose of Report and Executive Summary

- 1.1 The **Public Sector Internal Audit Standards** (the “Standards”) require the audit Partnership to produce and publish a risk based plan, at least annually, to determine the priorities for the year. The plan must consider input from senior management and Members and be aligned to the objectives and risks of the Council.
- 1.2 The purpose of this report is to set out the **annual assurance plan 2021/22** to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and engagement delivered over the course of the year.

2 Background

- 2.1 The Standards set out the requirements of the Chief Audit Executive (the Head of Audit Partnership fulfils this role for Swale Borough Council) that must be met when creating the audit plan. Specifically, Standard 2010:

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

- 2.2 The Audit Committee needs to obtain assurance on the effectiveness of the control environment, governance and risk management arrangements. The principal source of this assurance is derived from the annual assurance plan.
- 2.3 Standards explicitly support that the plan is flexible and responsive to emerging and changing risks across the year. Therefore, like with the 2020/21 audit plan, the 2021/22 plan includes audit reviews that are **high** priority and those that are **medium** priority. By taking this approach we are able to achieve flexibility within the plan and ensure that the plan remains relevant throughout the year.

3 Proposal

- 3.1 The appendix sets out the proposed plan for 2021/22, including background details on how we compiled the plan and how we propose to manage its delivery. The proposal is for the Audit Committee to consider and approve the plan.
- 3.2 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.

4 Alternative Options

- 4.1 The Audit Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee's role to formally consider and approve the plan. The Council could decide that it does not want a programme of work for the audit service, however, this would go against professional Standards.

5 Consultation Undertaken or Proposed

- 5.1 We consult with Managers, Heads of Service and Directors throughout the year as we undertake our work, but also specifically as part of the audit planning process. The plan attached represents the collective views of management and the audit service.
- 5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6 Implications

The Council's internal control processes include operating an effective internal audit service. This plan aims to deliver that requirement and so support the Council's overall governance.

Issue	Implications
Corporate Plan	The audit plan supports all Council activities and the wider Corporate Plan in assisting the governance around its delivery.
Financial, and Property	The work programme set out in the plan is produced to be fulfilled within agreed resources for 2021/22.
Legal and Statutory	The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore, the Council must approve a plan to maintain regulatory conformance.
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 & Assurance Plan 2021/22

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.

Internal Audit & Assurance Plan 2021/22








Swale Borough Council



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Introduction

1. Our mission as an Internal Audit service is to enhance and protect organisational value. We achieve this by bringing a systematic and disciplined approach to evaluate and improve effectiveness of risk management, control and governance. We work within statutory rules drawn from the Accounts and Audit Regulations 2015 and the [Public Sector Internal Audit Standards](#) (the “Standards”).
2. The Standards set out how we must approach audit planning. The checklist below aims to provide immediate assurance to Members on our compliance with Standards and act as an index.

Standard		Complied
2010	A risk-based plan, setting out audit priorities consistent with the goals of the organisation.	
2010 (PS) ¹	Linked to annual opinion need and internal audit Charter.	 see paragraph 5
2010.A1	Based on documented risk assessment, updated at least yearly and consulting Senior Management and Members.	 see paragraphs 8 to 17
2010.A2	Reflect expectations of Senior Management, Members and other stakeholders.	 see paragraphs 10-12
2020	Communicated to Senior Management for review and to Members for approval.	 see paragraph 16
2030	Ensure internal audit’s resources are fit and effectively used.	 see paragraphs 18-28
2030 (PS) ¹	Must explain how resource adequacy assessed, and set out results of any limits.	
2040	Must set up policies and procedures to ensure effective delivery.	 see Appendix I

3. In spring 2020 the Chartered Institute of Public Finance and Accounting (CIPFA) completed an External Quality Assessment (EQA) considering our compliance with the Standards. As reported to Members last autumn, CIPFA decided we perform in Full Conformance with the Standards. This conclusion preserves the outstanding result of our previous EQA in 2015 from the Institute of Internal Audit (IIA). We believe we are the only audit service to have received ‘Fully Conforming’ assessments from both major professional bodies charged with overseeing public sector audit.

¹ The public sector variant of the Standards imposes additional obligations beyond the global IIA Standards.

4. CIPFA's report included some advisory recommendations to consider in further developing the audit service. We describe progress towards fulfilling those recommendations at paragraph 48.
5. To protect the independence and objectivity of our service, we work to an [Audit Charter](#). The *Charter* sets out the local context for audit, including granting right of access to systems, records and personnel. At this Council, the Audit Committee approved the Charter in 2020.
6. Our plan includes assurance and other work, such as consultancy engagements. We can accept advisory work where it is the best way to support the Council. The *Audit Charter* sets out how we consider such engagements, including how we safeguard our independence.
7. We must also clarify that our audit plan cannot address all risks across the Council and represents our best use of the resources we have available. In approving the plan, the Committee recognises this limit. To that end, we constantly keep the plan under review to be live to risks and issues as they emerge.

Risk Assessments

8. The Standards direct us to begin our audit planning with a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. This plan for 2021/22 represents our views now, but we will continue to reflect and consider our response as risks and priorities change across the year. We will report a specific update to Members midway through the year. We may also consult the Committee (or its Chair) on significant changes.

Global and Sector Risks

9. In considering global and sector risks we draw on various sources. These include updates provided by relevant professional bodies, such as the IIA and CIPFA. We also consult colleagues in local government audit both direct through groups such as London and Kent Audit Groups and through review of all other published audit plans in the South-East.

Council Perspective and Expectations

10. The Council has set out its governance expectations in a [Local Code of Corporate Governance](#). This Code, based on the CIPFA/SOLACE Framework, commits the Council to seven principles of good governance:

- Behaving with integrity, displaying commitment to ethical values and respecting the rule of law.
 - Ensuring openness and comprehensive stakeholder engagement.
 - Defining outcomes with sustainable economic, social and environmental benefits.
 - Deciding the interventions necessary to optimise achieving intended outcomes.
 - Developing the entity's capacity including the ability of its leadership and the individuals within it.
 - Managing risks and performance through robust internal control and strong public financial management.
 - Carrying out good practices in transparency, reporting and audit to deliver effective accountability.
11. In its [Code of Audit Practice](#) the National Audit Office sets out the expectations external auditors should have when considering how an authority complies with its statutory duties. The relevant section is at 3.2 of the Code:

"[Local authorities must] maintain an effective system of internal control that supports the achievement of their policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at their disposal".

12. We plan and deliver our work with these expectations in mind. Specifically they make plain to us that every part of the Council should aim to have effective internal control. Each part must work in line with strong ethical values and focused on achieving efficient use of public funds. Our role is to examine the Council's work against these expectations, providing assurance on success where we find it and working with officers to identify responses where we do not.

Audit Risk Review and Consultation

13. Beyond keeping an awareness of Sector and local risk issues, we conduct our own assessment. We consider all possible audit entities across the Council (the "audit universe") on one specific risk:

What is the risk we offer a mistaken opinion because we don't understand the service?

14. As with a typical risk assessment there are two main parts to consider. The first: the service's relative importance to the Council's overall objectives and controls and how errors would impact our opinion. Here we consider:

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Finance Risk: The value of funds flowing through the service. High value and high-volume services (such as Council Tax) represent a higher risk than low value services with regular and predictable costs and income.



Priority Risk: The strategic importance of the service in delivering Council priorities. For example, Planning and Climate Change will be higher risk owing to the direct link with the Council's objectives.

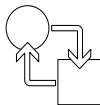


Support Service Risk: The extent interdependencies between Council departments. For example, many services rely on effective ICT.

15. The second part is the likelihood we might hold (or gain) a mistaken view of the service. Here we consider:



Oversight Risk: Considering where other agencies regulate or inspect the service. For example, Mid Kent Legal Services receive regular inspections from the Law Society to keep Lexcel accreditation and so have relatively low risk.



Change Risk: Considering the extent of change the service faces or has recently experienced. This might be voluntary (a restructure, for example) or imposed (like new legislation).



Audit Knowledge: What do we know about the service? This considers not just our last formal review, but any other information we have gathered from, for example, following up agreed actions. We also consider the currency of our knowledge, with an aim to conduct a full review in each service at least every five years if possible.



Fraud Risk: The susceptibility of the service to fraud loss. High volume services that deal direct with the public and handle cash, for example licensing, are higher risk.

16. The results of these various risk assessments provide a provisional audit plan. We then take this provisional plan out to consultation. We meet Mangers, Heads of Service and Strategic Management Team to get their perspective on our assessment and give us updates on their sections. We set out that consultation below. We thank these officers for their time and insight in helping to support our planning.

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Role	Date	Role	Date
Chief Executive	22 Jan	Financial Services Manager	1 Feb
Chief Financial Officer	25 Jan	Revenues & Benefits Manager	1 Feb
Head of Policy, Communications & Customer Service	25 Jan	Head of Commissioning, Environment & Leisure	4 Feb
Head of Property Services	28 Jan	Mid Kent Environmental Health Manager	8 Feb
Head of Planning Services	28 Jan	Parking Services Manager	9 Feb
Head of Housing, Economy & Community Services	28 Jan	Head of Mid Kent ICT	10 Feb
Director of Regeneration	28 Jan	Head of Mid Kent HR	12 Feb
Mid Kent Services Director	28 Jan	Senior Management Team (SMT, meeting as a group)	16 Feb

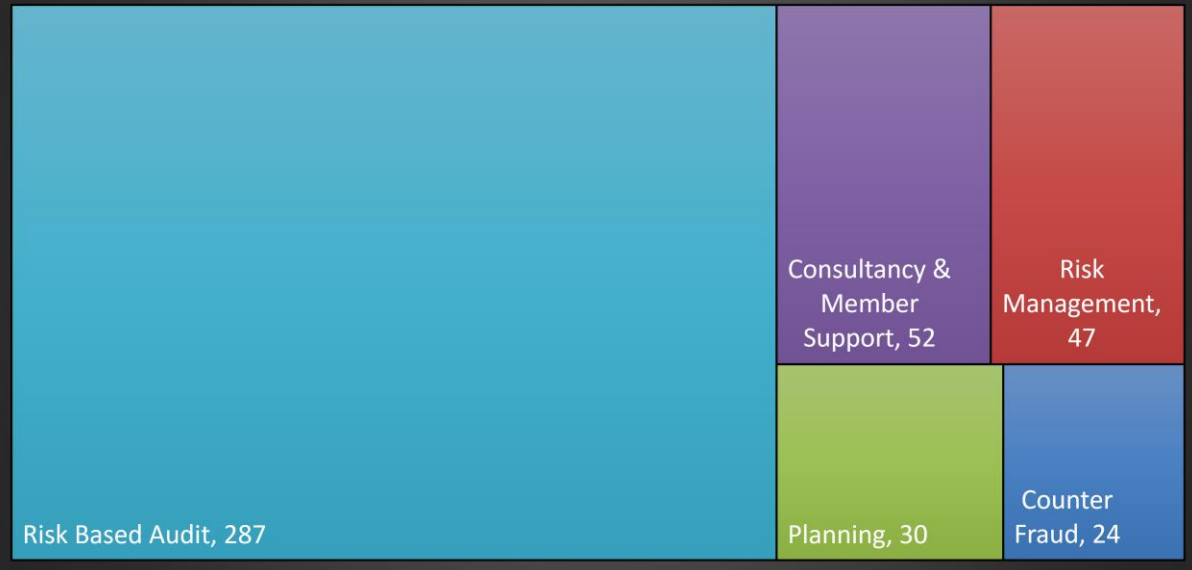
17. We set out the full audit universe and audit history in Appendix II.

Resources

18. Having gained a perspective on the key issues for audit attention in the coming year we then consider the quantity and quality of our resources.
19. We calculate an overall resource level based on the audit team establishment and a *chargeability* for each grade. *Chargeability* is the proportion of auditors' time we estimate they will spend engaged in work towards fulfilling the plan. This excludes, for example, management time, training, sickness and general administration. The chargeability assumption varies between grades from 60% (apprentices) up to 80% (for qualified auditors). This calculation produces an available number of days across the partnership of **1,760 days**.
20. This is slightly less than the 1,810 days expected in 2020/21. Although we do have increased efficiency in the team, we are also carrying vacancies. While we can use the money saved to source contract auditor support this will be at a more expensive day rate than an in-house employee. Subject to approval, we hope to fill both vacancies during mid-2021.
21. Each authority receives a share in keeping with their contribution to the overall partnership budget. For Swale this means the 2021/22 audit plan has **440 days** to assign.

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Division of Audit Plan Days Between Tasks: Swale 2021/22 (440 Days)



22. Standards oblige us to comment on resource adequacy. We do so considering:
- Whether we had enough to complete our prior year plan.
 - How the size and complexity of the organisation has changed.
 - How the organisation's risk appetite and profile have changed.
 - How the organisation's control environment has changed, including how it has responded to our audit findings.
 - Whether there have been significant changes to professional standards.
23. I am, in general, satisfied that we can deliver a robust Head of Audit opinion in Spring 2022. However, a note of caution. Typically, the list of audit engagements suggested as due by our general risk assessment is longer than we have capacity to deliver. This is not an inherent problem. Having a longer list for consultation helps achieve a broad discussion. However, for 2021/22 this 'gap' has increased and is growing.
24. In 2021/22 we will focus on how we can provide assurance in more efficient ways in future. This is a developing discussion within the profession. We will examine possibilities such as:
- Assurance mapping,
 - Efficiencies in our audit approach,
 - Smaller, more focused audits,
 - Cross-cutting audits.

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25. We provide more information on these approaches in our **Quality and Improvement Plan** at Appendix I.
26. We must also consider the skills, expertise and experience of our team. Following the exam success reported to Members during 2020/21, we now have every member of the audit management team holding either a Chartered Auditor or Accountant qualification². This is the qualification level precondition for service as Head of Audit. In the wider team, every auditor holds at least a Certified Auditor qualification or, with our two apprentices, is working towards its achievement. We also have within the team several specialist qualifications in both risk management and counter fraud. This gives us a wealth of relevant technical expertise to undertake the various specialist matters identified on our audit plan.
27. We also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts. While this access is less than in previous years (with Swale choosing to use some of these days to provide savings) access to specialist resources is still available.
28. Based on the above, we believe we also have skills and expertise to deliver the 2021/22 audit plan.

² Or, for the Head of Audit Partnership, both.

Risk Based Audit: 287 Days

29. The primary part of our audit plan is delivering risk based audit engagements. We classify these into High and Medium priority engagements in our plan.

High Priority Engagements

30. These are the 9 engagements we believe we must undertake to support a robust opinion at year end. We will typically only remove a High Priority engagement from a plan agreed with Members after consulting with the Chair of the Audit Committee. The list below is alphabetical and doesn't suggest a ranking within the group or intended delivery order. We will agree timings with a suitable officer sponsor once we have a Member approved plan.

High Priority Engagement Title & Draft Objectives
<p>1. CCTV & Monitoring</p> <ul style="list-style-type: none"> - To seek assurance on arrangements for keeping compliance with the CCTV Code of Practice and other relevant Council procedures.
<p>2. Environmental Enforcement</p> <ul style="list-style-type: none"> - To seek assurance on arrangements for complying with relevant policies when conducting enforcement action. - To seek assurance the Council has evaluated the proper enforcement action, and arrangements for meeting that assessed level.
<p>3. Health & Wellbeing Strategy</p> <ul style="list-style-type: none"> - To seek assurance on arrangements for tracking delivery of Strategy - To consider data quality within indicators used for tracking delivery
<p>4. IT Development³</p> <ul style="list-style-type: none"> - To seek assurance the arrangement for accepting development projects works in line with procedure and equitably between partners. - To seek assurance that IT development projects advance efficiently and effectively
<p>5. Leisure Services</p> <ul style="list-style-type: none"> - To seek assurance on the efficacy of Post-Covid procedures against reopening plans. - To seek assurance on the effective management of the leisure contract.
<p>6. Phishing Response³</p> <ul style="list-style-type: none"> - To seek assurance on anti-phishing awareness, training and recording. - To seek assurance on compliance with procedure for dealing with phishing emails once received by end users (both user compliance and IT team response).

³ Shared service with Maidstone and Tunbridge Wells

High Priority Engagement Title & Draft Objectives

7. Pre-Application Planning

- To seek assurance the Council fully accounts for Planning Performance Agreements (PPAs) to ensure they remain cost neutral.
- To seek assurance on arrangements for checking content of PPAs to ensure they provide extra services.
- To seek assurance on arrangements for ensuring independence and objectivity.

8. Residents' Parking⁴

- To seek assurance the Council manages residents' parking permits under relevant legislation and council procedure.
- To seek assurance that on proper income accounting.
- To seek assurance on proper management of refunds or discounts.

9. Subsidiary Company Governance

- To seek assurance on arrangements for preserving good governance.
- To seek assurance on arrangements for keeping proper control of Swale Rainbow Housing, given the need for it to be an independent agency.

Medium Priority Engagements

31. These are engagements that earn a place in our plan, but where completion could wait for a future year if needed. This level also incorporates some 'either/or' engagements. We are aware of the impact on officers of supporting an audit and so – typically – aim to have a maximum of three per lead officer per year. With medium priority engagements we will select the specific matters for review based on in-year risk assessments and in consultation with relevant officers, including the Chief Financial Officer and Chief Executive. We will not typically consult Members before deciding which Medium Priority Engagements to take forward for delivery.
32. We have **18 engagements** on this list and aim to deliver **at least 8**. Any engagements we do not take forward for 2021/22 we will automatically consider as candidates for 2022/23. The list below is (nearly) alphabetical and doesn't suggest ranking within the group or intended delivery order. We will agree timings with a suitable officer sponsor once we have a Member approved plan.

⁴ Shared service with Maidstone

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Medium Priority Engagement Title & Draft Objectives

1. Accounts Receivable

- To seek assurance on identifying and accounting income due.
- To seek assurance on compliance with Council procedures for debt write-off.

2. Apprenticeships⁵

- To seek assurance on managing the apprenticeship levy.

3. Building Control⁶

- To seek assurance on proper accounting for Building Control Income.
 - To seek assurance on arrangements for ensuring Building Control partnership complies with relevant quality standards in undertaking its work.
 - To seek assurance on arrangements for service overseeing and control.
- (NB: we have co-ordinated with Medway BC audit team on planning this work).

4. Business Rates

- To seek assurance the Council manages collection efficiently and effectively.

5. Child Safeguarding

- To seek assurance on arrangements for certifying compliance with s11.

6. Community Support

- To seek assurance on arrangements for compliance with grant making rules.
- To seek assurance on arrangements for checking effective spend of grant money.

Either 7. Complaint Handling

- To seek assurance on compliance with complaint handling rules.
- To seek assurance the Council responds properly to information (both general and specific) from the Local Government Ombudsman

Or 8. Customer Services

- To seek assurance the Council has effective arrangements to check compliance with customer service standards, policies and procedures.

9. Facilities Management

- To seek assurance on managing refurbishment of Swale House.
- To seek assurance on managing visitors within Swale House (possibly including Covid-19 access arrangements)

Either 10. Licensing Enforcement

- To seek assurance on arrangements for complying with relevant policies when conducting enforcement action.
- To seek assurance the Council has evaluated the fitting enforcement action, and arrangements for meeting that assessed level.

⁵ Shared service with Maidstone

⁶ Shared service with Thames Gateway Partnership

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Medium Priority Engagement Title & Draft Objectives

Or 11. Housing Enforcement

- To seek assurance on arrangements for complying with relevant policies when conducting enforcement action.
- To seek assurance the Council has evaluated the fitting enforcement action, and arrangements for meeting that assessed level.

12. Local Plan Consultation

- To seek assurance the Council has complied effectively with consultation rules for developing its Local Plan.

13. Payroll & Expenses⁷

- To seek assurance the Council amends payroll (including starters and leavers) accurately and in line with procedure.
- To seek assurance the Council manages expense claims properly.
- To seek assurance that information accurately links with other systems.

Either 14. Performance Management

- To seek assurance how the Council selects indicators to track progress.
- To seek assurance on how the Council ensures suitable Data Quality.

Or 15. Elections Management

- To seek assurance on arrangements for ensuring the Council manages elections efficiently and under Electoral Commission rules.

16. Planning Administration⁷

- To seek assurance on the planning administration process' effectiveness and efficiency in complying with statutory and service demands.
- To seek assurance on the accuracy of financial and performance recording.

17. Talent Management⁷

- To seek assurance on compliance with approach to identify high performing staff.
- To seek assurance on compliance with and effectiveness of policy to manage such staff once identified.

18. Visitor Economy Framework

- To seek assurance on tracking progress against the Action Plan.

⁷ Shared service with Maidstone

Follow-up of Agreed Actions

33. As part of closing an audit engagement we will typically agree actions with officers to put right any faults found and minimise risk. We dedicate around 20 days each year to following up these actions, reporting results to Senior Officers and Members as part of our routine reporting.
34. Where an action is significantly overdue or poses significant risk we will highlight this to the Senior Management Team. We may also report seriously delinquent actions to this Committee and ask that Members invite the responsible officer to explain and account for delays.

Consultancy & Member Support: 52 days

35. We aim to keep around 10% of the audit plan days as a consultancy fund to provide general and specific extra advice or training to the Council. This will also include attendance and contribution to officer groups, such as the procurement group.
36. We also use consultancy days when we must expand an audit scope to cover specific concerns or findings identified during an audit. This effectively allows us to have some contingency to avoid having to cut short engagements and allow full exploration of significant findings.
37. We also use this budget to deliver specific extra work for the Council. In 2020/21 this involved, for example, redeployment to help the Council manage Covid-19 grant support to local businesses. In 2021/22 it might involve undertaking any post-payment checks the Government may need. We would conduct such work using different members of the audit team to ensure independence.
38. Finally we also use this budget to support Members, through attendance at and reporting to Committees. We also provide extra briefings and specific Member training as sought.

Risk Management: 47 days

39. At Swale our responsibility encompasses tasks such as leading the risk management framework, keeping and updating strategic and operational risk registers. We also compile risk reporting to Senior Officers and Members, including an annual report to this Committee.
40. We must note responsibility for managing the identified risks remains with the relevant risk owners. However, we can and do provide advice, support and training.

41. We set out our plans for developing risk management in 2021/22 in the Annual Risk Management Report, also on this meeting's agenda.

Planning: 30 days

42. We use this time to keep current with risks and issues across the Council, the wider public sector and the audit profession. This ensures our plan can remain dynamic and responsive to risk through the year. We also use it to manage delivery of the audit plan across the year and co-ordinate any extra support or advice. Finally, we use this time to complete the major part of our annual planning exercise, including updating risk assessments and consultation across the Council.

Counter Fraud Support: 24 days

43. At Swale our responsibilities include writing and updating Counter Fraud and Whistleblowing policies, providing a channel for officers to raise concerns under the Public Interest Disclosure Act. We also act as lead contact for the National Fraud Initiative, a data matching exercise co-ordinated by the Cabinet Office.
44. As well as these routine roles, we also use this time to conduct investigations on matters of concern. Although we do not have police powers to compel attendance, this has included conducting interviews under caution and handling evidence to a criminal standard.
45. For 2021/22 we hope to compile more detailed procedures for investigations, drawing on Cabinet Officer Standards. We also aim to draw up training to support compliance with the Bribery Act and make clear where people should report any matters of concern.

Delivering the Audit & Assurance Plan

46. We work in full conformance with the Public Sector Internal Audit Standards and relevant Codes of Ethics. The sections below include more detail on how we intend to preserve conformance.

External Quality Assessment

47. In September we reported to Members we had achieved a second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider. The table below summarises our progress:

Recommendation	Current Position
Statement limiting distribution and use of audit reports and clarifying conformance to IPPF	We've included a statement (wording agreed with CIPFA) on our standard 20/21 reporting template. Complete
Enhance declaration of interest forms for audit staff	We have expanded our compliance and declaration approach, including a new online form. All staff in the service completed a fresh declaration in early 2021. Complete
Expand use of data analytics	We have opened discussion with some suppliers and neighbouring audit services on possible subjects for expansion. We will follow this further as part of our 21/22 improvements (see 'Quality and Improvement Plan', below) In progress
Provide greater comparative insight for clients	We have identified joint audits for 21/22 and will look to publish cross-partnership reports on select topics. In progress
Renew internal audit collaboration agreement that expired in 2019	Have restarted discussions among partners to clarify expectations of any new agreement. In progress

Quality Assurance & Improvement Programme

48. Standard 1300 directs the Head of Audit to set up and keep a quality assurance and improvement programme. There are two key objectives of the programme. First to document and clarify how we uphold the quality and integrity of our work. Second to make plain our commitment to self-reflection on reviewing and improving how we plan and deliver our work. The Standards encourage Member engagement with and oversight of the Programme.
49. We could show conformance in our External Quality Review. However our reviewer commented we could bring together and summarise our approach in a single document for Members.
50. We provide that document at Appendix I. It sets out:
 - Our ambitions on upholding a commitment to excellent quality audit work.
 - How we exercise oversight, review and uphold that quality.
 - How we will review our work over the coming months and years to revisit and consider how we might further improve.

Next Steps

51. We will begin planning the delivery of this plan as soon as it receives Member approval. We expect to begin fieldwork on the earliest 2021/22 engagements in late May/early June and start reporting results in July or August.
52. In November we will provide an Interim report to Members. This will summarise work completed up to then, with any significant findings and actions. We will also update Members on the progress of our Quality Assurance and Improvement Programme.
53. We aim to complete the plan in late Spring 2022 and will form our conclusions into a Head of Internal Audit Opinion to support the 2021/22 Annual Governance Statement. We reserve the right, as set out in the Audit Charter, to report significant findings to Members outside these scheduled reports. This includes seeking to meet privately with Members if needed.

Appendix I: Quality Assurance & Improvement Programme

1. Continuous improvement sits at the heart of internal audit as a profession. Both for the auditors who work within it and for the contribution it makes to organisations.
2. The Code of Ethics for auditors states: “[auditors] shall continually improve their proficiency and the effectiveness and quality of their services”.
3. The IIA’s Mission of Internal Audit talks about “enhancing organisational value”. With the definition of internal auditing being: “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations”. These are not new ideals. The IIA’s founding statement published 15 July 1947 dedicated internal audit to: “protecting the interests of the organisation, including pointing out existing deficiencies to provide a basis for appropriate corrective action”.
4. As this drive applies to the services we audit, the need to reflect and seek improvement applies no less to us in Mid Kent Audit. This Plan has two principal parts:

Quality

Setting out the standards we apply to our work, how we guarantee and uphold them.

Improvement

Setting out how we examine our work, to consider its efficiency, effectiveness and place in industry best practice.

5. These features sit within the context of Mid Kent Audit’s overall vision:

“To be the highest quality local authority audit service in the UK”.

6. We will update this plan regularly, no less than once each year. In particular we will form the “Improvement” section into a rolling programme to ensure our internal ‘universe’ receives no less review in search of improvement than we apply to our partner authorities.
7. The Mid Kent Audit team fully embraces the professionalism and high standards inherent to the modern auditor. We remain grateful for the support, encouragement and challenge of members and officers in our partner authorities to help achieve this goal.

Quality



Mid Kent Audit's last two external quality assessments confirmed we work in full conformance with the Public Sector Internal Audit Standards and the International Professional Practices Framework.

This is the standard we seek to uphold. We do so in four main ways:

Team Expectations and Approach

8. We expect our team to uphold the IIA Code of Ethics, ensuring they work with *Integrity, Objectivity, Confidentiality* and *Competency* always. This means working as a professional auditor, supporting colleagues and clients as part of the audit team.
9. We recognise the markers of quality work listed in Standard 2420 (Quality of Communications). These state that we must be accurate, objective, clear, concise, constructive, complete and timely. We recognise our overall goal in helping our clients by providing assurance and supporting improvement across their control environment and service delivery.

Training and Development

10. We have consistently preserved strong financial and budgetary support for training and development throughout the team. Our ambition is to support every member of Mid Kent Audit in earning and keeping a suitable professional qualification.
11. This is why we, as well as compulsory training demanded as part of our employment with Maidstone Borough Council, set aside at least 40 hours each year for training. The 40 hours level is consistent with keeping qualification as a [Certified Internal Auditor](#), but where other qualifications have different needs we will typically support these too. We also keep a financial budget equal to supporting that volume of training.
12. Our starting position is to support all further training and development where there is benefit to the Partnership and the individual. Naturally we will face practical and budgetary restraints that may vary over time. Nevertheless if we can find a way to support development, we will seek to do so. We also celebrate the team's training and achievement in our reporting to Members and others.
13. We are also a service keen to look outside our borders for development and best practice. While ensuring we continue to deliver our core service, we welcome opportunities to engage with and learn from the broader audit profession.

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Tools and Guidance

14. We use Ideagen's Pentana Audit Management Software. This is an industry leading software package, tailored for use in Mid Kent Audit. Pentana is online, ensuring our team can work collaboratively and electronically from any location with an Internet connection. Pentana guides an auditor step-by-step through completing an audit engagement. If followed, that guidance will ensure our work remains fully conforming with the Standards.
15. The guidance is available within Pentana using 'mouse over' and document libraries. We also keep a shared drive accessible to the whole audit team with library versions of guidance and copies of relevant rules and publications (for example, the Standards themselves).
16. We have a group membership of the Institute of Internal Audit. This gives every member of the audit team access to online support and guidance from the internal audit profession.
17. We aim to introduce new versions of Pentana within three months of their release. This will ensure we remain current in using the latest software, while also giving the time and opportunity to consider how best to use any new or amended features.
18. We have within Pentana a library of templates (including report and brief templates) for auditors to use in engagements. These ensure consistency in approach and presentation, but also allow for variation and innovation to support quality work.

Supervision, Review and Coaching

19. As required by Standards 2340, all work we complete is supervised. We embrace the three objectives of that supervision set out in the standard:
 - **Objectives are achieved:** Each engagement sets objectives in its brief. The engagement reviewer(s) will ensure the final report is clear in fulfilment of those objectives and reporting of results.
 - **Quality is assured:** The engagement reviewer(s) will ensure files contain documentation in line with Standard 2330 (sufficient, reliable, relevant and useful to support engagement results). They will also ensure auditors follow all relevant guidance with variance clearly set out.
 - **Staff are developed:** The engagement reviewer(s) will ensure the team fully consider their own development goals and will support them in their achievement.
20. We save evidence of review through use of Pentana's 'Completed' and 'Approved' markers. We may raise review notes during an engagement, but will often not save them when closing

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a file. Similarly, we will not typically keep interim drafts of work in Pentana after completing an engagement, but auditors may extract and file separately to aid their personal development.

21. Review is not directive on matters of professional judgement. Each auditor is a professional in their own right, bound by the Code of Ethics to act with integrity. This includes a responsibility for auditors to not follow audit approaches or findings that conflict with their professional judgement. We have in place a *Professional Judgement Policy* setting out how we deal with differences of judgement that arise within audit teams. However as set out in Standard 2340, the Chief Audit Executive holds overall responsibility.
22. Depending on the risk associated with the audit and team experience, engagements may have either or both an 'A' or 'B' Reviewer. Their different standard roles are:
 - **A Reviewer:** Responsible for direct supervision of the lead auditor(s) including detailed review of fieldwork. Will read draft client communications to ensure consistency with the documented engagement findings. The A Reviewer will typically have a more 'hands on' or coaching style engagement with the lead auditor(s), so will play a key role in development. An A Reviewer could be a Manager or Senior Auditor.
 - **B Reviewer:** Responsible for overall quality assurance and issuing formal client communications. The 'B' Reviewer will always be a Manager.
23. Where an engagement has a single reviewer, that reviewer will always be a Manager combining both 'A' and 'B' roles.
24. Deciding whether to have a single or dual review rests with the manager who has responsibility for the relevant audit plan. Typically, engagements led by a Senior Auditor will have a single reviewer and those led by an Apprentice will have dual review. The Manager should set out the early review rationale at Step P0 and affirm after planning is complete at Step P6. Where circumstances of the engagement need a later decision to expand the review team, the decision and reasoning will feature in at Step F1.
25. An *Issuing Managers' Guide* sets out considerations for Managers when issuing formal client communication. This Guide also includes the conditions under which the Chief Audit Executive has delegated his responsibilities under Standard 2440 (Disseminating Results).
26. Besides review of individual engagements we also undertake periodic **Cold Reviews**. These take place after completing the engagement file and seek to look back on the work to assess quality and conformance with Standards. Twice a year we will undertake a **Cold Review** of a sample of files using the checklist and approach set out in the appendix to this plan.

Improvement

27. An important feature of our Improvement plan is to ensure we take a comprehensive look at our approach. Just like an audit universe must eventually touch on every part of our work. The examination won't necessarily result in change, but we ought not assume anything is perfect and could not bear improvement. At the appendix we show the internal 'audit universe'.
28. Deciding where to focus will draw on three principal sources of information:
- **Professional Updates:** Information produced by the profession, for example IIA Position Papers. We have a specific approach to considering these, set out below.
 - **External Feedback:** Information from our partner authorities on the strengths and weaknesses of the service and where we might develop.
 - **Internal Feedback:** Information drawn from review (including cold review) as well as comments from the audit team on how they find working with our approach.

Professional Updates

Professional institutes such as the IIA and CIPFA sometimes issue guidance for internal auditors to consider. For the IIA, such guidance may also feature in the International Professional Practices Framework. The IIA publishes its updates (available to members only) [at this link](#). We will also receive updates through bodies such as the Internal Audit Standards Advisory Board, the Local Authority Chief Auditors' Network and Kent and London Audit Groups.



29. We will consider relevant updates through the Management Team. As well as influencing the QAIP, we may put updates to more immediate use, for example by informing training.
30. We will go through a similar approach when considering whether and how to adopt significant updates to our audit management software.

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Building the Improvement Plan



Considering evidence

- Professional Updates
- External Feedback
- Internal Feedback



Select Quarterly Focus Area

- Rebuttable presumption in favour of scheduled plan area
- Endorsed at Management Team
- MT commission area scope and approach



Review Focus Area

- Various possible review approaches, including internal working groups, hired consultants, client focus groups &c.
- No single approach, and mixed methods acceptable



Recommended Actions

- Paper to Management Team
- Three recommendation types: (1) Retain area unchanged, (2) Further work, (3) Changes recommended
- Paper will also consider **how** to implement change



Implement Change

- Could be immediate if relatively low impact
- Could wait until new audit year
- Could be after further review and consultation



Review Change

- Annual summary of QAIP considered by Management Team and at Team Day
- QAIP results also reported to Senior Management and Members
- Review periods build into papers recommending significant change

One key point is that this approach exists to preserve structure, ensure quality and treat issues consistently. It is not a barrier to innovation. We welcome people's ideas on how to improve our work, in big and small ways. We will continue to innovate outside this formal structure where doing so improves the service we offer.

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The Improvement Plan

We aim to keep a two-year rolling programme of matters to examine within the audit universe. Below is the current draft. We will keep a current version in the audit team shared drive. We will also publish a report each year to Members.

Year	Focus Area	Draft Objectives	Timing
2020/21	Assurance Ratings & Finding Priorities	Clarify the purpose of our use of assurance ratings and findings priorities. Consider whether the current definitions remain fit for that purpose and propose alternatives for consultation with officers and members.	Proposal for consultation by Christmas 2020. Consult and pilot through 2021/22 & introduce 2022.
	Ethics	Fulfil EQA recommendation of improved declarations of interest within the audit team.	Proposal by early 2021 to go live alongside Spring 2021 appraisals.
	Client Liaison	Review our approach to engaging with audit contacts to explain the process and purpose of audit.	Proposal by Spring 2021 to go live when introducing 21/22 plan engagements.
2021/22	Review Process	Consider our approach to completing file reviews and ensuring it supports consistency, quality and development.	Proposal by Summer 2021 for introduction across Autumn
	Assurance Mapping	Using anticipated new Pentana feature, draw up an approach to creating assurance maps across authorities.	Proposal by Christmas 2021 for incorporation into 22/23 audit planning.
	Test Completion	Following on from looking at file reviews, consider approach to testing. In particular scope for greater use of computer assisted audit tools.	Proposal by early 2022 for implementation in 22/23 audit year.
	Risks & Controls	Review our guidance to support auditors in identifying and documenting risks and controls	Proposal by spring 2022 for 22/23 year engagements.

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Annex I: Mid Kent Audit Process Universe

Planning Processes

- **Background Research & Intelligence:** How we research businesses and systems.
- **Client Liaison:** The information we provide to clients. **2020/21 Plan**
- **Budget Planning:** How we draw up and monitor budgets.
- **Risks & Controls:** Identifying, documenting and assessing. **2021/22 Plan**
- **Test Creation:** Drawing up efficient and effective tests

Fieldwork Processes

- **Documentation:** What we keep on file and how it is presented.
- **Test Completion:** Approaches including tools such as CAATs. **2021/22 Plan**
- **Sampling:** Selection apt samples and documenting rationale for selection.
- **Findings/Causes/Effects:** Identifying findings and ascribing causes and effects.
- **Amending Work Programmes:** How and when to amend and documenting any changes.

Reporting Processes

- **Assurance & Finding Ratings:** Is our system of ranking fit for purpose? **2020/21 Plan**
- **Follow-Up:** Is our approach effective at efficiently supporting improvement?
- **Report Formats:** Considering templates and standard content.
- **Review Process:** Does it ensure quality and support team development. **2021/22 Plan**

Other Processes

- **Annual Planning:** Process to support developing the plan for Members
- **Ethics:** Ensuring and documenting adherence to code. **2020/21 Plan**
- **Audit Management Software:** What package we use and when to upgrade.
- **Assurance Mapping:** How we consolidate information on assurance. **2021/22 Plan**
- **Consolidated Reporting:** Reporting results of our work at an authority level to Senior Officers and Members.

Annex II: Cold Review Process and Checklist

We will be piloting cold reviews in Spring 2021. We will add the final approved checklist arising from those pilots in the Quality and Improvement Plan from mid-2021/22 onwards.

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Appendix II: Audit Universe

The “Audit Universe” is our running record of all processes at the Council we might examine. The list below shows Swale specific entities on our current audit universe, followed by a record of audit audit history: (Key: **D** = Delivered Engagement, **P** = Planned Engagement in 2020/21, **H** = High Priority on 2021/22 Plan, **M** = Medium Priority on 2021/22 Plan)

Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
Accounting & Finance	Budgetary Control						D		
	Creditors	D		D				P	
	Debtors		D					P	M
	Financial Planning		D				D		
	General Ledger			D					
	Insurance					D			
	Payroll & Expenses	D	D	D	D				M
	Treasury Management	D		D		D			
Communi-cations	Internal Communications								
	Public Consultations								
	Social Media/Website		D				D		
Community Safety	Animal Welfare				D				
	CCTV & Monitoring			D					H
	Licensing			D		D			M
	Public Health & Wellbeing								H
	Safety Partnerships				D				
Corporate	Business Continuity				D				
	Climate Emergency							P	
	Complaint Handling			D					M
	Contract Management							D	
	Counter Fraud					D			
	Customer Services		D						M
	Declarations of Interest						D		
	Emergency Planning								
	Information Management	D	D	D		D			
	Internal Audit	D					D		
	Legal Services				D				
	Performance Management		D						M
	Procurement		D				D		
	Project Management		D		D			P	
	Risk Management	D							
Safeguarding	D			D				M	

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Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
	Subsidiary Company								H
Culture & Economy	Community Support				D			P	M
	Economic Development					D			
	Leisure Services			D					H
	Parks								
	Visitor Economy								M
Democracy	Election Management			D					M
	Electoral Registration							D	
	Member Development						D		
	Members' Allowances	D		D		D			
Environment	Cemeteries & Crematoria		D					D	
	Environmental Enforcement			D	D				H
	Grounds Maintenance			D	D				
	Waste Collection	D				D			
Environmental Health	Air Quality							P	
	Food Safety				D				
Estate Management	Facilities Management				D				M
	Property Acquisition					D			
	Property Income			D		D	D		
Housing	Home Improvement Grants						D		
	Homelessness	D	D	D		D	D	P	
	Landlord Liaison			D	D			P	M
Human Resources	Absence Management					D			
	Health & Safety						D		
	HR Policy				D				
	Recruitment						D		
	Staff Performance Mgmt								M
	Training & Development		D						M
	Workforce Planning								
Information Technology	IT Asset Management							D	
	IT Backup & Recovery				D			P	
	IT Development								H
	Network Security	D	D	D		D		P	H
	Technical Support	D					D		
Parking	Parking Enforcement			D			D		
	Parking Income	D			D				
	Residents' Parking			D					H
Planning	Building Control			D					M
	Conservation & Heritage					D			
	Development Management						D		
	Land Charges				D				

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Process Type	Process	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22
	Local Plans								M
	Planning Administration								M
	Planning Enforcement			D			D		
	Pre-Application Planning				D				H
	Section 106 Income			D				P	
Revenues & Benefits	Business Rates	D	D		D				M
	Council Tax	D		D			D		
	Council Tax Reduction Scheme					D			
	Disc. Housing Payments		D				D		
	Housing Benefit	D		D					
	Universal Credit								

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Audit Committee Meeting	
Meeting Date	10 th March 2021
Report Title	Audit Committee Annual Risk Management Report (2020-21)
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 considers and provides comments on the operation of the risk management framework.

1 Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to provide information to members of the Audit Committee on the Council’s risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process.
- 1.2 The report attached in Appendix I provides an overview of the risk management process as operated throughout the year. To demonstrate this process in action information relating to the Council’s risk profile is included in the report.

2 Background

- 2.1 Since implementing the **risk management framework** in July 2015 we have been providing regular updates to Officers and Members on key risks, and the actions being taken to address and manage those risks. This includes all corporate risks and high level (red and black) risks.
- 2.2 We (Mid Kent Audit) have been working with the Council over the course of 2020/21 to update and maintain the comprehensive risk register. Including updating the corporate and operational risks, and continued reporting and communication of key risk information.
- 2.3 Throughout the year we have also continued to work with the Council to create a positive risk culture, and ensure that the risk management process adds value.

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 arrangements in place and provides comments on the operation of the risk management process.

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 All 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: Annual Risk Management Report (2020-21)

8 Background Papers

- Risk Management Framework

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Annual Risk Management Report

Audit Committee

March 2021



Introduction

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

By having arrangements in place to identify and manage our risks, we increase our chances of achieving corporate and operational objectives and reduce the chance of failure. Good risk management also increases our ability to cope with developing and uncertain events. A key part of the risk management process is to report risk information.

Twice yearly risk reports are provided to Members of Informal Cabinet who review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed. As those charged with governance and oversight the Audit Committee should seek assurance that the Council is operating an effective risk management process. This enables the Audit Committee to fulfil the responsibilities as set out in the Terms of Reference:

“To monitor the effective development and operation of risk management and corporate governance in the Council.”

The purpose of this report is to provide assurance to Members that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately.

We have continued to receive a positive level of engagement and support from Senior Officers and Managers in the Council which has enabled the risk management process to develop and embed. So, we'd like to take this opportunity to thank officers for their continued work and support.

Risk Management Process

Detailed guidance on the Council’s risk management processes is set out in the **Risk Management Framework**. The framework sets out each stage of the process which can be illustrated as follows:



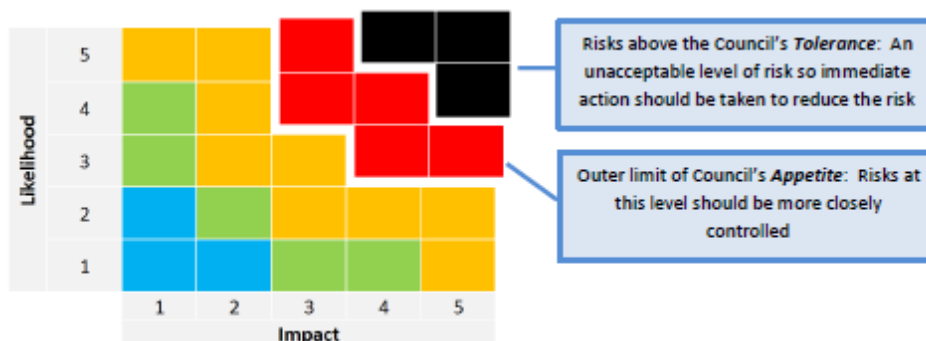
Since a risk is an event that could affect the achievement of the Council’s *objectives*, the process starts with considering what the corporate or service objectives are. Consideration is then given to what could happen in the future to affect the achievement of these objectives.

Once identified risks are then *evaluated*. That is to say understanding how big the **current** risk is by considering:

- The existing controls which are already in place to manage the risk.
- How severely the organisation would be affected if the risk transpires (the impact).
- The possibility of the risk materialising and becoming an event that needs managing (the likelihood).

Appendix II includes the definitions used to guide the impact and likelihood evaluations and ensure consistency in measuring risks.

The next step is to determine what, if any, action will be taken to *respond* to the risk. The baseline level of response is determined by the Council’s risk tolerance and appetite, which are illustrated as follows:



The following table outlines what risk owners should do to respond to their identified risks:

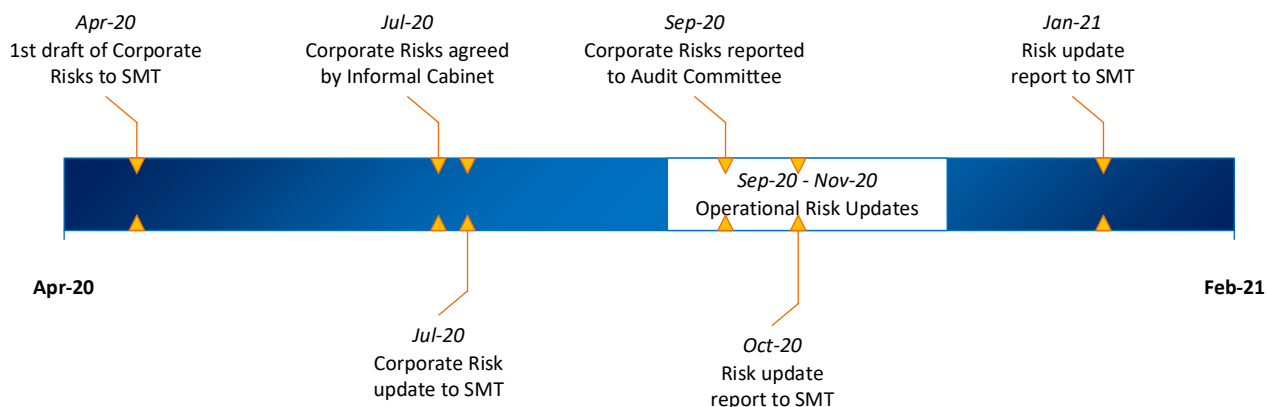
	Risk Rating	Guidance to Risk Owners
20-25	<p>Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks.</p> <p>The Council is not willing to take risks at this level and action should be taken immediately to treat, transfer or terminate the risk.</p>	<p>Identify the actions and controls necessary to manage the risk down to an acceptable level. Report the risk to the Audit Team and your Director.</p> <p>If necessary, steps will be taken to collectively review the risk and identify any other possible mitigation (such as additional controls).</p>
12-16	<p>These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.</p> <p>Alternatively consideration can be given to transferring or terminating the risk.</p>	<p>Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level.</p> <p>If unsure about ways to manage the risk, consult with the Internal Audit team.</p>
5-10	<p>These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase.</p>	<p>Keep these risks on the radar and update as and when changes are made, or if controls are implemented.</p> <p>Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.</p>
3-4	<p>These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.</p>	<p>Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.</p>
1-2	<p>Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.</p>	<p>No actions required but keep the risk on your risk register and review annually as part of the service planning process.</p>

Where necessary planned actions should be documented, and the impact and likelihood scores reassessed to determine the **mitigated** risk.

All identified risks and associated information are captured in the Council's comprehensive risk register. This is used to *monitor and report* on risks to ensure action is being taken as necessary and changes are captured in updates to the risks. Appendix III summarises the overall process and step 4 outlines the routine risk reporting that occurs during the year.

2020-21 Risk Processes In Action

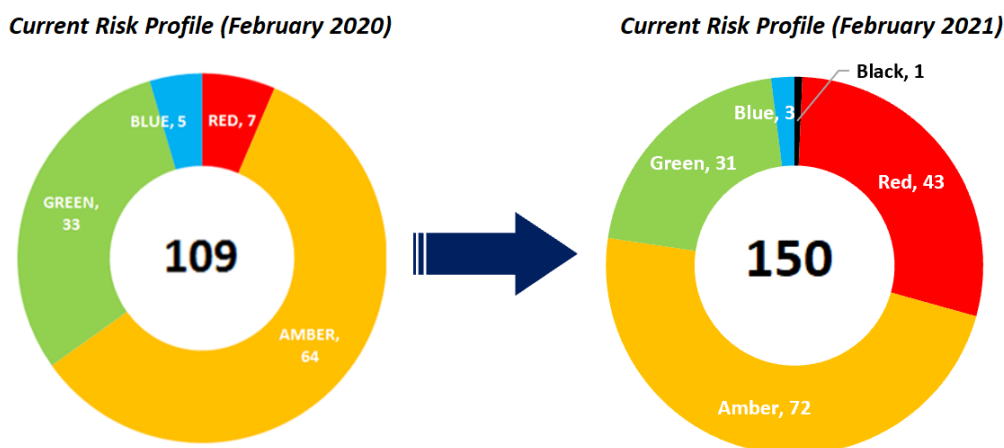
The work undertaken during the year is outlined in the following timeline:



Updating operational risk registers is usually undertaken in line with service planning, around April / May, but responding to the pandemic delayed this work. However, updating operational risks during September – November allowed services to better understand the ongoing implications of the pandemic and their priorities for the upcoming year. This has led to a more comprehensive operational risk register which fully reflects potential effects on service objectives. Going forward the operational risk register will be updated and monitored in line with the Risk Management Framework. All high-level (red / black) risks will be reviewed in March 2021.

The last report to Audit Committee (September 2020) outlined the approach we took to updating the Council’s corporate risk register. Since then, corporate risks have been reported to SMT and updated as needed. Corporate risks will continue to be monitored quarterly with quarterly reporting to SMT and half-yearly reporting to Informal Cabinet.

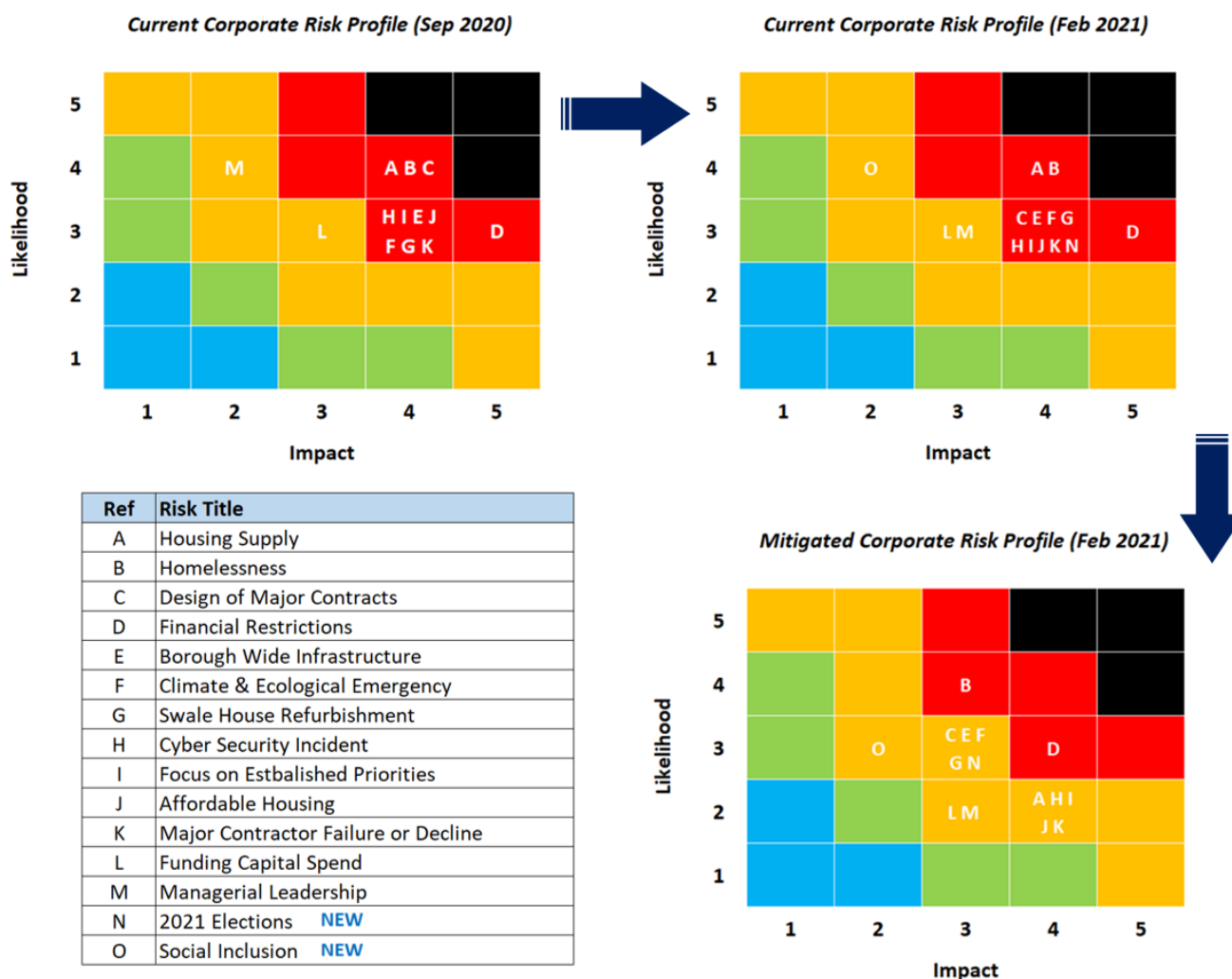
The following diagram depicts the risk profile last reported to Audit Committee in March 2020, compared to the risk profile in February 2021. The **current** rating is the risk to the Council assuming all existing controls are working as expected to manage the risk. Note the February 2020 profile only includes operational risks as corporate risks were in development at the time.



The increase in the total number of risks is as a result of incorporating updated corporate risks and expanding consultation on the operational risk updates (see below).

Corporate Risks

The following matrices show the current corporate risk profile as at September 2020 compared to February 2021. The **current** rating is the risk to the Council assuming all existing controls are working as expected to manage the risk. Also shown is the **mitigated** rating – i.e. the risk to the Council in the future once all planned actions have been taken.



As demonstrated above there has been a change in the scores for two of the risks. The *design of major contracts* (C) risk has decreased in likelihood as a result of progress made on the waste contract. The *managerial leadership* (M) risk has been updated to reflect the appointment of the Chief Executive and management restructure plans.

Two risks have been added onto the corporate risk register since it was reported to Audit Committee in September 2020. *2021 elections* (N) was added to reflect the Council-wide risk of elections not being delivered effectively under the more restrictive requirements resulting from Covid-19. *Social inclusion* (O) was added onto the risk register to reflect the development of the Council’s new Social Inclusion strategy.

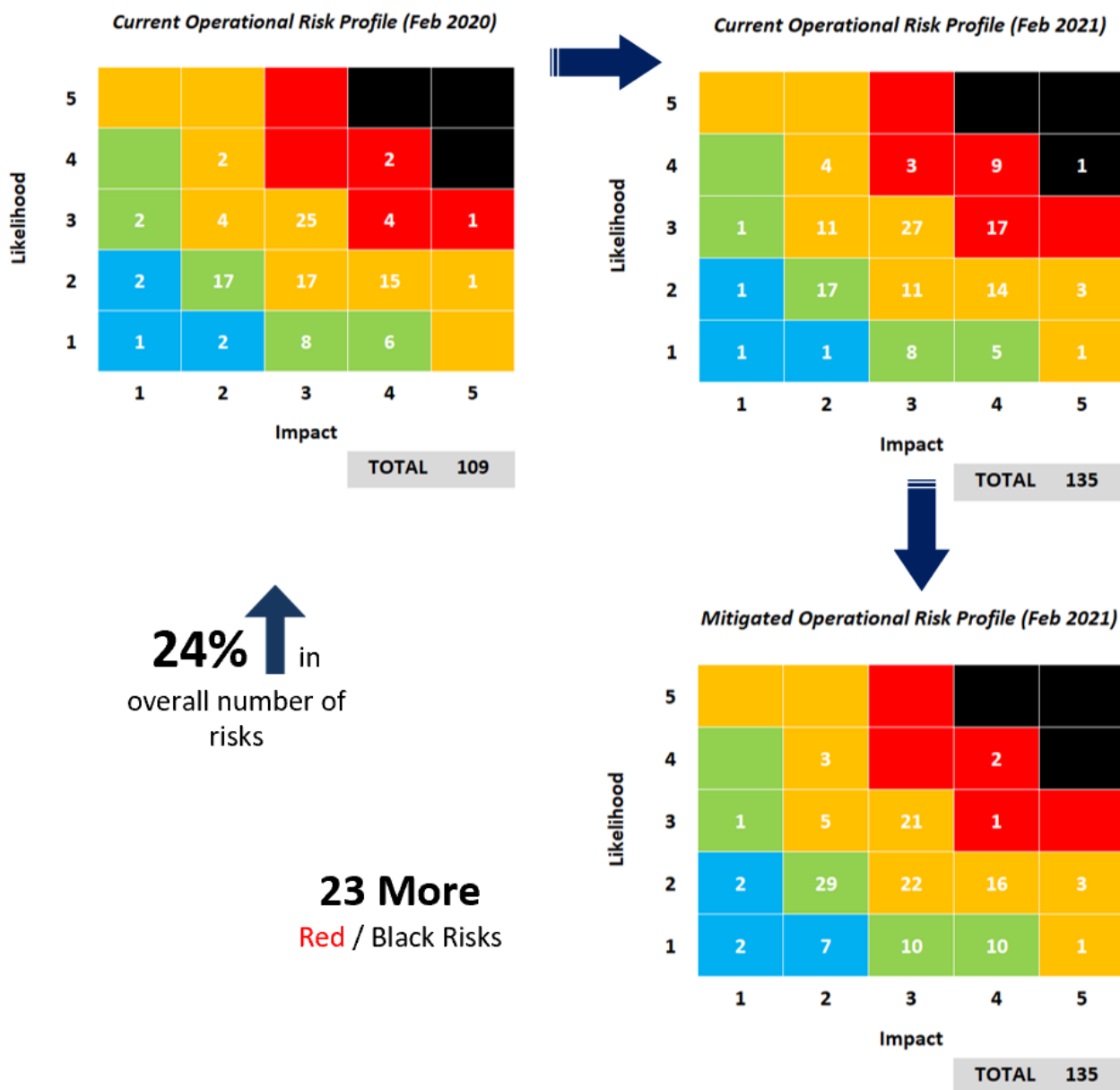
Two risks remain at the outer limit of the Council’s risk appetite after the implementation of planned controls. These relate to managing increases in homelessness (B) and having the funds to deliver core

services and Council priorities (D). Actions have been identified which will reduce the impact of these risks. However, these risks will be closely monitored to ensure actions are being taken, and consideration will be given as to whether any additional actions could be taken to further reduce the impact or likelihood of the risk.

Appendix IV includes the full details of the Council’s corporate risk register.

Operational Risks

As outlined above, between September and November we worked with services to capture their operational risks. This involved meeting with Managers, Heads of Service and other relevant officers and discussing their objectives for the coming months and what could stop them achieving these objectives. All this information was combined into one operational risk register, and the matrices below summarise this information:



The overall increase in the number of risks is as a result of wider consultation with managers and other key officers; the change in circumstances facing the Council since February 2020; and the desire of services to capture all their activities and Member priorities.

The black risk that has been identified relates to the provision of *temporary accommodation*. This is an issue routinely monitored by SMT to ensure that action is being taken to bring the risk down to a more acceptable level.

The other two risks that remain red after mitigating action is taken are *IT security breach* and *removal of court dates*. These, and all high-level (red/black) current risks are being monitored quarterly by SMT and will be routinely reviewed and updated.

The detail of each high-level operational risk is set out in Appendix V.

Risk Work Plan

The following provides an overview of the risk work planned for 2021-22, and the key areas of focus for our work. We appreciate that the current circumstances are changeable and so the plan will be kept under review and flexed where necessary.



Swale Lead
Alison Blake
Audit Manager



Swale Support
Russell Heppleston
Deputy Head of Audit Partnership



Routine Risk Work

The following work will continue throughout the year:

- Updating corporate and operational risks in line with the Risk Management Framework
- Ongoing monitoring of risk information
- Regular reporting of risks to SMT, Informal Cabinet and Audit Committee
- Advice and guidance to officers relating to risk, including research reports (e.g. Covid)



Risk Software

July - Oct
2021

Implement **specialist risk software** to improve the efficiency of the risk process, enable more powerful reporting and monitoring and increase engagement with risk owners.



Training & Development

July - Nov
2021

Deliver training to support the rollout of risk software and to refresh **knowledge** and **expertise** of risk management and the risk management process.

Training to be delivered to Officers & Members.



Risk Actions

Dec - Mar
2021

Implement mechanisms to ensure actions are taken to address risks that fall **above** the risk tolerance level. We will work with risk owners to identify control measures and to assess the reduction on the overall level of risk.

Sharing of effective control measures to be incorporated.



Reporting & Monitoring

Throughout
2021 / 22

Rethink / **redesign** risk reporting to ensure that data is valuable and supportive.

Consider the **audience** for reporting of risk information and whether this should be varied.

Definitions for Impact and Likelihood

Risks are assessed for impact and likelihood. So that we achieve a consistent level of understanding when assessing risks, the following definitions were agreed and have been used to inform the assessment of risks on the comprehensive risk register.

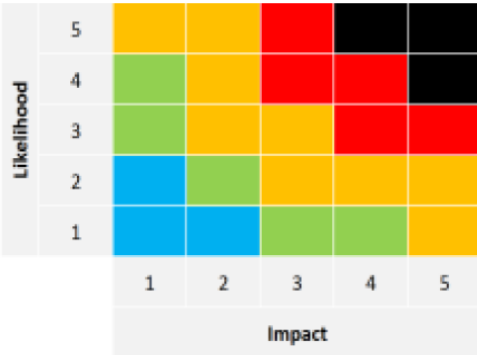
RISK IMPACT

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

One Page 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> 	<p>Black – Above our tolerance, immediate action and reporting to directors.</p> <p>Red – Outer limit of our appetite, 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>

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Corporate Risk Register

The following table is an extract from the comprehensive risk register and outlines the Council's corporate risks. *The **current** rating is the rating assuming existing controls are working effectively, and the **mitigated** rating is the future risk rating after planned actions are complete.*

Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I x L)	Controls planned	Mitigated Rating (I x L)
<p>Housing Supply Council continues not to deliver the 5year housing supply leading to increased ad hoc greenfield planning applications and potential appeals costs.</p>	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
<p>Homelessness 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 of 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

Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I x L)	Controls planned	Mitigated Rating (I x L)
<p>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.</p>	Roger Truelove Julian Saunders, Angela Harrison & Martyn Cassell	<p>1) Robust tender process that includes the early identification of contracts approaching the end of their term 2) Consultant engaged for grounds maintenance and waste contracts to provide guidance on financial implications and meeting industry standards 3) Early engagement with Members provided clear perspective on direction and will be ongoing 4) Awareness of central government legislative changes 5) Review potential methods of operation, including researching approaches adopted by other local authorities</p>	(4 x 3) 12	<p>1) Member engagement planned for key points in the process to ensure early decision making 2) Early market testing to support financial predictions 3) Continue to follow Government consultations on new legislation - Autumn 2021</p>	(3 x 3) 9
<p>Financial Restrictions 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	<p>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</p>	(5 x 3) 15	<p>1) Work with Cabinet & deputies and SMT on priorities for funding 2) New government finding streams 2) Work with the Finance group 3) Expenditure controls</p>	(4 x 3) 12
<p>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.</p>	Mike Baldock, James Freeman & Charlotte Hudson	<p>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</p>	(4 x 3) 12	<p>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</p>	(3 x 3) 9
<p>Climate & Ecology Emergency The Council is unable to deliver the climate & ecological emergency motion agreed at Council in June 2019.</p>	Julian Saunders, Nick Vickers & Martyn Cassell	<p>1) Climate & ecology emergency Member / officer steering group established 2) Annual report to Council to monitor progress</p>	(4 x 3) 12	<p>1) Revised Corporate Action plan developed for 2021 2) Swale House refurbishment 3) New Local Plan</p>	(3 x 3) 9
<p>Swale House Refurbishment The refurbishment of Swale House does not achieve objectives and / or is not delivered within budget / on time.</p>	Monique Bonney & Nick Vickers, Anne Adams	<p>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</p>	(4 x 3) 12	<p>1) Project team and project manager appointed. 2) Report to Cabinet March 2021 detailing the options, a forward plan and costings</p>	(3 x 3) 9

Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I x L)	Controls planned	Mitigated Rating (I x L)
Cyber Security Incident Security breach or system weakness leads to cyber-attack that results in system unavailability and financial or legal liability.	Roger Truelove & Steve McGinnes	1) Effective backup arrangements 2) External testing 3) ICT policies & staff training, including disaster recovery plan 4) Cyber security testing & training, plus awareness campaigns 5) Nessus scanning software reporting daily on system vulnerabilities 6) Darktrace enterprise cyber immune system deployed	(4 x 3) 12	1) Cyber awareness campaign February 2021 2) New firewall, to be in place by March 2021	(4 x 2) 8
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	1) Agreed corporate plan priorities 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 5) New cabinet subgroups to drive forward work on key priorities	(4 x 3) 12	1) Regular meeting with Cabinet on progress of 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) Business cases prepared to link projects to priorities & corporate plan	(4 x 2) 8
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	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 7) Available sources of funding reviewed 8) Testing the market for possible partners	(4 x 3) 12	1) Create Local Housing Company 2) Deliver 3 development sites agreed by Cabinet 3) Monitor market for land acquisitions 4) Acquire suitable land to enable development of Affordable Housing	(4 x 2) 8
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, Julian Saunders, 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	(2 x 4) 8

Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I x L)	Controls planned	Mitigated Rating (I x L)
Funding Capital Spend Delivery of coalition priorities requires capital spend which cannot be accommodated within the revenue budget.	Roger Truelove & Nick Vickers	1) Revenue implications of capital explicitly funded through revenue budget 2) Liaison with commercial tenants	(3 x 3) 9	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
Managerial Leadership Failure to build strong leadership team by new Chief Executive leads 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	(3 x 3) 9	1) Commencement of senior leadership restructure and work to build a new team 2) Reviewing staff engagement plan	(3 x 2) 6
2021 Elections 6-7 elections due in May 2021, likely under Covid-19 rules making it harder to deliver elections effectively	Roger Truelove & David Clifford	- Regular election controls/guidance - Specific Covid-19 guidance from the EC and AEA - Elections risk register	(4 x 3) 12	- Additional funding support should be received from Government (e.g. PPE, additional polling station staff). Elections project team to be set up. - Increase the number of people/backups to assist on elections	(3 x 3) 9
Social Inclusion A lack of community or partnership engagement and poor investment results in not achieving social inclusion outcomes and leads to increases in social inequality.	Ben Martin & Charlotte Hudson	1) Grant funding available (e.g. citizens advice bureau and winter grants) 2) Social Inclusion Worker in post	(2 x 4) 8	1) Position statement to understand what is currently done and where the gaps are 2) Development of Strategy and identification of outcomes	(2 x 3) 6

Operational Risk Register

The following table is an extract from the comprehensive risk register and outlines the high-level (**red** or **black**) operational risks. *The **current** rating is the rating assuming existing controls are working effectively, and the **mitigated** rating is the future risk rating after planned actions are complete.*

Service	Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I xL)	Controls planned	Mitigated Rating (I xL)
Housing Options	Provision of cost of Temporary Accommodation Not enough access to temporary accommodation or due to lack of supply costs increase.	Rox Sheppard	Various suppliers utilised. Good relationship with suppliers. Costs negotiated. Direct Lets	(5 x 4) 20	Procurement exercise with MBC and TWBC to go to market to negotiate a better deal with TA providers. Refresh incentives for landlords.	(4 x 4) 16
Page 54 MKS ICT	IT Security Breach A failure in investment or training could result in costly and/or reputational damage	Julie May	<ul style="list-style-type: none"> - IT Security Policy - Business case for procurement of counter measures agreed by SSB - Simulated Phishing and Awareness campaign continuing (planned HMRC phishing e-mail recently distributed) - Cyber security training mandatory and undertaken via ELMs - Nessus scanning software in now fully deployed and reporting daily on system vulnerabilities - Darktrace software procured and in place, providing an extra level of protection (scanning software that runs checks on individual laptops for unusual activity) - Have switched to biannual tape backups to improve recover time objective (RTO). 	(4 x 4) 16	Evaluation of Cyber security measures and consideration of new measures are ongoing. A new firewall (TRAPS) will be installed by the end of the year	(4 x 4) 16
Revs & Bens	Removal of court dates Removal of court dates by HM Courts and Tribunals Service due to covid. Resulting in no summons issued and reduced enforcement of non-payment of Council Tax	Zoe Kent	Recovery posts. Recovery actions. Increased communication with customers. Increased direct debit payments.	(4 x 4) 16	Continued liaison with Courts and other Kent authorities to push for court dates. 2 new posts created.	(4 x 3) 12
Leisure and Technical Services	Eastchurch Cliff Slide Financial impact on Local Authority and Shoreline Management plan of Eastchurch Cliff Slide	Jay Jenkins/Martyn Cassell	Known issue - monitored through Shoreline Management plan. Specialist surveys undertaken, regular liaison with EA, and action plan in place. Informal Cabinet report issued - risk assessments and actions considered.	(4 x 4) 16	Discussions ongoing, working group in place. Discussion ongoing, officer working group in place. Regular policy debate with cllrs members and external agencies.	(3 x 3) 9

Service	Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I xL)	Controls planned	Mitigated Rating (I xL)
Economy & Community (Economic Development)	Delivery of Service Plan Reduced staffing resources impact on ability to deliver against service plan with additional work generated by Covid response.	Kieren Mansfield	Prioritise project work appropriately. Use staff from other teams as appropriate.	(4 x 4) 16	Reconfiguring of priorities and expectations (public/member). Increased sharing of staff resources.	(3 x 3) 9
Housing Options	Rough sleepers - budget Unexpected demand leads to budget overspend	Rox Sheppard	Trained staff. Bidding process for funds. Regular monitoring and reporting. Intense housing management. Supervision of staff	(4 x 4) 16	Income maximisation through Housing Benefit. Procurement exercise with MBC and TWBC.	(3 x 3) 9
Planning Services	New Planning Regs - Loss of Income The new Planning Regulations cause a loss of income from fewer planning applications	James Freeman	Lobbying and responding to government consultation	(4 x 4) 16	Promote planning performance agreements for local plan policy making and pre app advice.	(3 x 3) 9
Economy & Community (Safer and Stronger)	CCTV Staffing As a result of staff availability due to Covid, there may be a failure to deliver operational CCTV service for agreed hours	Steph Curtis	Appropriate staffing resources in place. CCTV policy/procedures to ensure appropriate delivery of service. Monitoring and reporting.	(4 x 4) 16	Recruitment of casual CCTV operators to cover periods of absence. Self-assessment checklist for legal compliance with CCTV legislation.	(4 x 2) 8
Page 55 Med Kent Audit	Ineffective Recruitment As a result of poor recruitment practices we engage staff (permanent or contract) who do not deliver as expected	Rich Clarke	- Following standard recruitment processes & assessment criteria. - Induction & probation reviews. - Ongoing support & development - Mentoring & coaching - Engaging contractors through agreed frameworks & reputable suppliers with appropriate checks on individuals.	(4 x 4) 16	- Reflection on remote recruitment - New onboarding process	(4 x 2) 8
Housing Options	Staff recruitment and retention Limited ability to recruit to posts and retain staff particularly due to remuneration package	Rox Sheppard	Use of HR frameworks. Advertise out to networks. Staff benefits. Team working ethos.	(4 x 4) 16	Service impact report. Re-evaluation of grades for homeless officers.	(2 x 2) 4
Electoral Services	Resource pressure Unexpected elections cause pressure and stress on the team and could result in failure to deliver services	Keith Alabaster	Sharing of knowledge within team, good support arrangements with suppliers, support available via Electoral Commission and Association of Electoral Administrators, developed good relationships with colleagues	(4 x 3) 12	- Addition of a temporary member of staff - Additional support provided from other departments	(3 x 3) 9
Finance	Statutory accounts Preparation of the statutory financial accounts to deadline whilst working from home and during a coronavirus pandemic	Phil Wilson	Based on successful 2018/19 process, early planning, engagement with Grant Thornton	(3 x 4) 12	Addressing resource issues, clear planning, staff training, dialogue with Grant Thornton, decisions by FSM taken on level of resource required to meet acceptable materiality level of data accuracy compared to other competing demands on staff time	(3 x 3) 9

Service	Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I xL)	Controls planned	Mitigated Rating (I xL)
Revs & Bens	Council Tax and Business Rates Collection Failure to collect Council Tax and Business rates payments	Zoe Kent	Continuous comprehensive monitoring of staffing and income levels with regular adjustments as necessary. Timetable of issuing reminders. Recruited 2 additional staff.	(4 x 3) 12	Two new posts to be advertised.	(3 x 3) 9
Commissioning, Environment & Leisure	Collapse of a major contractor One of the Council's major service providers withdraws or becomes insolvent	Major Contract Managers/Martyn Cassell	Robust tender processes, continued contract management, annual financial check (to ensure stability throughout life of contract), CSOs amended to consider impact	(4 x 3) 12	Working with contractors and partners to review the contract periodically - ongoing	(4 x 2) 8
Leisure and Technical Services	Collapse of Leisure Centre Contract as a result of Covid-19 Trust could become insolvent and cease trading, which would jeopardise Leisure Centre Contract.	Jay Jenkins/Martyn Cassell	Likely to be central funding, but not sure how this will be distributed. Ongoing discussions with Serco and SCL. Have applied and been granted Sport England funding for a consultant, 'Strategic Leisure Ltd' (SLL). SLL are currently mediating between Serco and SBC for a solution.	(4 x 3) 12	Initial report due to go to Cabinet in December. Have tabled suggestions for resolution to financial position. Loss of income claims have been submitted.	(4 x 2) 8
Housing Options	Safeguarding Concerns Missed Increased caseload results in missed safeguarding issues	Rox Sheppard	Regular contact with customers. Liaison with agencies. Trained staff.	(4 x 3) 12	Increased regular training around domestic abuse and mental health issues.	(4 x 2) 8
Comms & Marketing	Coronavirus information Confusion and miscommunication conveyed to residents, arising from different agencies' involvement.	Philip Sutcliffe	- Engaging with Kent Resilience Forum media cell - Working with SMT escalate issues - Weekly SMT briefings	(4 x 3) 12	- Increasing public awareness via SBC SM campaigns (e.g. testing, following Gov advice etc) - Continuing to engage with KRF	(4 x 2) 8
Finance	Staffing Heavy reliance on a core of highly experienced staff, inability to recruit agency and new staff during coronavirus pandemic	Phil Wilson	Staff training, staff engagement	(4 x 3) 12	Continuing staff engagement, allocation of duties within Finance, decisions by FSM on priority of competing demands on limited staff time	(4 x 2) 8
Revs & Bens	Universal Credit Full implementation of Universal Credit results in loss of funding for Benefits administration	Zoe Kent	Housing team liaise with partner agencies such as job centre. Full trained and experienced staff provide ongoing support and prevention. Active monitoring of UC claims through Academy system. Monitoring of the ratio of the workload and caseload and ratio of staff to work received Work with other authorities to share good practice. Direct links to job centre and to landlords established. DWP top up funds.	(4 x 3) 12	Implementation of software within Academy to provide more automation of the process. Regular update reports to Members and communication / awareness.	(4 x 2) 8
Mid Kent Environmental Health	Covid-19 Wardens Due to the nature of the work it may be difficult to recruit people with the right professional expertise to manage covid-19 enforcement activity.	Tracey Beattie	- Prioritisation of COVID-19 enforcement work and spread over environmental protections and food and safety - Funding available	(4 x 3) 12	- Continue to utilise volunteers - Recruit agency staff - Recruitment to advisor posts - Increasing Coms messages around compliance with Covid guidelines	(4 x 2) 8

Service	Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I xL)	Controls planned	Mitigated Rating (I xL)
MKS ICT	Remote system Failure Failure of remote system means staff across the Council are unable to work from home	Chris Woodward	-Replica/side by side system in operation	(4 x 3) 12	Potential to increase number of licenses at short notice being investigated	(4 x 2) 8
Mid Kent Audit	Loss of Motivation Losing / failing to maintain positive and motivated team members as a result of changes in process and staff including impact of Covid & remote working	Rich Clarke	- Regular 1:1s with team to enable feedback of issues & problems - Commitment to deliver & support staff training & development - Team day centred around 'team' each year. - Reward and recognition. - Opportunities for team to take on additional duties to aid development.	(4 x 3) 12	- Look to enhance communication channels (esp. as remote working looks to be the 'new normal')	(4 x 2) 8
Mid Kent Audit	Reduced Health & wellbeing A failure to adequately manage triggers leads to diminishing health and wellbeing within the audit team and consequent increases in absence and reductions in work quality and efficacy.	Rich Clarke	- Use of existing resources and policies across Mid Kent (e.g. EAP, Mental Health First Aiders) - Attendance at 'building resilient teams' training and adherence to key points - Ongoing pastoral discussion and supervision within management 1:1s - Monitoring worked hours and action to alleviate unmanageable workloads - Increased 'check ins' via new HR approach & modified remote working	(4 x 3) 12	- Look longer term about available communication channels and approach as possibility of longer term remote working appears more likely	(4 x 2) 8
Economy & Community (Culture and Places)	Visitor Economy Framework A lack of a co-ordinated approach to tourism business development may limit economic growth and jobs	Lyn Newton	Framework and additional resource in place. Monthly analytical reports. Social media interactions and web pages.	(4 x 3) 12	Setting up area groups (Fav has its own forum, Sheppey next to set up). Quarterly meetings with Cabinet meeting to monitor progress.	(3 x 2) 6
Private Sector Housing	Difficulty Recruiting Due to skills and experience required difficult to replace staff who leave	Glyn Pritchard	Market salary, ongoing good quality training, effective recruitment processes in place	(4 x 3) 12	Ability to provide temporary cover. Undertake job re-evaluations	(3 x 2) 6
Licensing	Recruitment of Licensing Team Leader Lack of time to progress recruitment for resourcing Licensing Team Leader.	Della Fackrell	None at the moment	(3 x 4) 12	Meet with HR to establish what extra support they can provide. Legal support for putting together interview questions.	(3 x 2) 6
Planning Services	New Planning Regs - Frontloading of Planning Policy The new Planning Regulations cause extra costs associated with planning policy to adapt to the frontloading	James Freeman	Statement of Community Involvement (SCI) setting out engagement strategy New website Kent Planning Policy Officers Forum/KPOG Planning Agents Engagement Group Existing partnerships	(4 x 3) 12	Employ qualified Urban Planners/Designers Transfer of skills from DM Effective Project Planning Monitoring the SCI	(2 x 2) 4

Service	Risk (title / full description)	Risk Owner	Key Existing Controls	Current Rating (I xL)	Controls planned	Mitigated Rating (I xL)
Planning Services	New Planning Regs - Skills Lack of officer skills to support the new planning system. Lack of qualified Urban Planners/Designers and lack of existing transferable skills.	James Freeman	Cross district training in specialist skills. Existing Urban Designer and Conservation Design Manager. Design South East Membership Existing staff training others	(3 x 4) 12	Formal training opportunities to diversify skills of existing Planning staff	(2 x 2) 4
Mid Kent Environmental Health	Insufficient Resources (Staff) Insufficient resources to respond to requirements of FSA and other statutory responsibilities (including Covid)	Tracey Beattie	- Recruitment into vacant posts and temporary cover - Prioritising workloads to enable effective management of demand - Training staff to expand competency - Review of the service demands and resource have been made as a result of increased political and public awareness of coronavirus in Swale and Maidstone.	(4 x 3) 12	- 1.5 vacancies in Food & Safety team, 2 long term. Planned recruitment to vacancies. - Shared service recruitment of posts and contractors to meet demand of inspection. Development of graduate EHO with option to recruit to vacancy in 2021.	(2 x 2) 4
Dem Services	Insufficient resources Not enough resources to effectively manage all additional Committee meetings on top of existing ones (Local plan, Area Committees, re-organised from Covid).	Jo Millard	- Member of staff from another team seconded to assist on Area Committee meetings	(4 x 3) 12	- Recruiting an additional member of staff to assist (and training them)	(2 x 1) 2

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Swale Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our work in our Audit Findings Report to the Council's Audit Committee as those charged with governance on 25 November 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,565,000, which is approximately 2% of the Council's gross revenue expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 27 November 2020.</p> <p>Our report included an emphasis of matter in respect of the impact of the Covid-19 pandemic on the valuation of the Council's land and buildings, holding in a property investment fund and share in the Kent Pension Fund's property investments as at 31 March 2020. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 27 November 2020.
Certificate	We certified the completion of the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Working with the Council

Both the Council and the audit team moved to remote working arrangements in March 2020. We continued to have regular contact with the Council throughout our audit of the financial statements, although the remote working arrangements meant that our audit took longer to complete.

We would like to take this opportunity to record our appreciation for the assistance provided by the Council's staff during the audit, particularly given the additional issues associated with remote working as a result of the pandemic.

Grant Thornton UK LLP January 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1,565,000, which is approximately 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year. We set a lower level of materiality, £500,000, for our review of the Council's bank and cash balances, as any error in this area might have added significance for the accounts as a whole.

We set a threshold of £78,000 above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global Covid-19 pandemic has led to unprecedented uncertainty for all organisations, including the Council. We identified risks relating to:</p> <ul style="list-style-type: none"> the impact of remote working arrangements on the Council's process for producing the financial statements, and on the audit team's ability to obtain sufficient, appropriate audit evidence to support our opinion; the greater uncertainty applying to assumptions and estimates made by management, including the potential impact of market volatility on property valuations; and the need for appropriate disclosures in the financial statements on the impact of the pandemic. 	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> worked with management to understand the implications of the response to the pandemic on the Council's ability to prepare the 2019/20 financial statements; evaluated the adequacy of the disclosures in the financial statements in the light of the pandemic; evaluated whether sufficient audit evidence could be obtained through remote technology; and evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the valuations for property assets. 	<p>The Council moved to a remote working environment in March 2020. However, there has been no indication of high sickness levels, changes in roles and responsibilities or IT systems issues with a significant impact on the workings of the finance team.</p> <p>Management concluded that all valuations in respect of the Council's land and buildings, holdings in property investment funds, and share in the Kent Pension Fund's property investments should be reported on the basis of "material valuation uncertainty".</p> <p>Our audit opinion includes an emphasis of matter drawing attention to this disclosure in the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council revalues its Property, Plant and Equipment (PPE) assets using a 5-year rolling programme, but with all major assets revalued annually. The Council also performs work each year to confirm that the carrying value of all assets at the balance sheet date is not materially misstated, even if a full revaluation has not been performed. All Investment properties are revalued annually.</p> <p>The valuation of these assets represents a significant estimate by management in the financial statements.</p> <p>We designed our work to address the risk that the valuation of land and building assets was materially misstated.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> evaluated management's processes for the calculation of the estimate, including the instructions issued to the Council's external valuers and the scope of their work; evaluated the competence, capabilities and objectivity of the external valuers; challenged the information and assumptions used by the Council's external valuers, tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and evaluated how management concluded that the carrying value of assets not revalued was not materially misstated. 	<p>We noted that an accrual for capital expenditure totalling £778,000 had been omitted from the accounts. The value of PPE assets was therefore understated by this amount. Management agreed to amend the accounts.</p> <p>The Council's leisure centres are valued on a Depreciated Replacement Cost (DRC) basis. This methodology requires an estimate of the building costs required to replace the building, including the use of a "location factor" based on geographical area. For one asset the location factor differed from that used in the calculations for other DRC assets. We agreed that the same location factor should be used in all DRC valuations. The impact was to increase the value of PPE assets by £333,000. Management agreed to amend the accounts.</p> <p>The Council owns three small parcels of land at Fountain Street, Sittingbourne. These sites were valued on different bases. It was not clear that this was appropriate. The Council's external valuer estimated the potential impact if all three sites had been valued on the same basis, taking into account their potential for affordable housing use; the impact was to increase the aggregate value, but not by a material amount. We concluded that there was no material issue for our opinion and the accounts were not amended.</p> <p>In December 2019 the Council terminated its development agreement with Spirit of Sittingbourne PLC (SoS PLC); as part of the termination agreement it made a payment to the company. In the financial statements this payment was treated as capital expenditure and accounted for as an addition to PPE assets. We considered the accounting treatment for this transaction. Under IAS 16b the costs of an item of property, plant and equipment include "any costs directly attributable</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings (continued)</p> <p>Page 66</p>		<p>to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management".</p> <p>We noted that in late 2019 the Council wished to investigate alternative options for these sites, including affordable housing. Management's view was that, under the conditions stipulated by the development agreement, if the agreement had not been terminated the land would have been transferred outside of the Council's control and the sites could not have been used for other purposes. We also noted that the settlement payment was not a material transaction in the accounts. In October 2019 management reported that the estimated value of the three sites which would transfer to SoS PLC exceeded the amount of the settlement payment. We noted that at 31 March 2020 the three sites were valued by the external valuer at an aggregate value lower than the settlement. We concluded that there was no material issue for our opinion.</p> <p>Our audit work did not identify any other issues in respect of the valuation of land and buildings.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's financial statements include a net liability in respect of the Local Government Pension Scheme (LGPS). This represents a significant estimate in the financial statements.</p> <p>We designed our work to address the risk that the pension fund net liability was materially misstated</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> identified and evaluated the design of the controls put in place to ensure that the pension fund net liability was not materially misstated; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation assessed the accuracy and completeness of the information provided by the Authority to the actuary; confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary PWC (as auditor's expert) and performing the additional procedures suggested within the report; checked that the disclosures on pensions included in the financial statements were consistent with the actuary's report; and obtained assurance from the auditor of the Kent Pension Fund (KPF) on the validity and accuracy of the membership, contributions and benefits data provided by KPF to the actuary, and used by the actuary to calculate the Council's net pension liability. 	<p>In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. This ruling has implications for other pension schemes, including the LGPS. The Council's actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31 March 2020 by £861,000.</p> <p>A consultation by HM Treasury on the next phase of the Government's response to address this discrimination commenced in July 2020. This process may lead to changes in the liabilities arising out of the judgment.</p> <p>Management have concluded that the issue is not material. No additional disclosure has been included in the accounts.</p> <p>We concluded that there was no material issue for our opinion.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We designed our work to address the risk associated with management override of internal controls.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals; identified and tested unusual journal entries for appropriateness; gained an understanding of the accounting estimates, judgements applied and decisions made by management, and considered their reasonableness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>We considered the disclosures on estimation uncertainty relating to the pandemic and agreed a number of changes with management.</p> <p>We did not identify any other issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 27 November 2020.

Issues arising from the audit of the financial statements

As a result of the Covid-19 pandemic remote working arrangements for both the Council and the audit team have been in place throughout the audit. This has meant that the audit has taken longer to complete, with screen-sharing and other procedures required to obtain appropriate supporting evidence.

Additional work has also been required in 2019/20 to address the depth and challenge of work now required by the Financial Reporting Council in areas such as the valuation of property assets and the Council's net pension liability.

As in previous years the standard of the Council's draft financial statements was high. The working papers produced by the finance team to support the accounts were also of a high standard. This performance was especially commendable given the challenging environment created by the pandemic.

We reported the key issues from our audit to the Council's Audit Committee on 25 November 2020.

Annual Governance Statement and Narrative Report

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

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

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Swale Borough Council in accordance with the requirements of the Code of Audit Practice on 27 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>We identified a significant risk in respect of the Council's arrangements to ensure financial sustainability.</p>	<p>The Council has a history of strong financial management. In recent years it has had a structured approach to addressing the impact of ongoing reductions in government funding, both by making financial savings and through developing alternative sources of income. In this period it has regularly delivered underspends against revenue budget, including an underspend of £64,000 for 2019/20; it has also made significant contributions to reserves to address future uncertainties, including creating a business volatility reserve to manage fluctuations in income from business rates. The Council has usable reserve balances of £23,453,000 at 31 March 2020. However, it has continued to face financial pressures, and has made contributions from reserves to support the revenue budget in both 2018/19 and 2019/20.</p> <p>The impact of the Covid 19 pandemic on the Council's financial position in 2019/20 has been limited, with lockdown arrangements commencing in late March 2020. However, the impact on the Council's finances in 2020/21 is likely to be significant, with a further impact in future years.</p> <p>The Council faces pressures both from the loss of income and additional costs. The loss of income reflects the impact of wider economic conditions, including reduced income from fees and charges (mainly income from car parks), and from delays in opening the leisure phase of the Sittingbourne Town Centre regeneration project. There may also be reductions in collection rates for council tax and business rates. The Council anticipates that costs associated with homelessness will increase as a result of the pandemic. There may also be additional costs associated with the Council's leisure centres, which are operated by third parties. A tranche of government funding for leisure centres was announced in October 2020, but prior to this leisure centre operators were not eligible for financial support, with lockdown arrangements leading to significant additional costs and reductions in income. The Council has agreed to provide additional support of £125,000 to two leisure centre operators to address these pressures. It is considering if further support will be required.</p> <p>The Council has received four tranches of emergency funding from central government totalling £2,922,000. Additional support, estimated to be approximately £650,000, is anticipated under government plans to compensate councils for the potential loss of income from fees and charges.</p>	<p>We concluded that the risk we identified was sufficiently mitigated and that the Council has proper arrangements for securing economy, efficiency and effectiveness in the use of resources.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability (continued)</p> <p>Page 72</p>	<p>An updated assessment of the financial impact of the pandemic was reported to September Cabinet. This forecast a substantial revenue overspend in 2020/21 compared with original budget, with an overall adverse financial impact of £700,000. This forecast takes into account the financial support from government notified to that point, but not the most recent, fourth, tranche of support funding totalling £1,027,000. This forecast continues to be updated as new information is received.</p> <p>The Council is currently modelling the impact of the pandemic on the Council's Medium Term Financial Plan (MTFP). The previous version of the MTFP, updated prior to the pandemic, identified a residual funding gap (after delivering service savings) of £1.2m for 2021/22. You have identified a number of risks to the Council's position in future years associated with the additional costs and loss of income arising from the pandemic. A further update will be provided to Cabinet in December.</p> <p>We concluded that going forward the Council is now likely to face very significant financial pressures. Considerable uncertainty still remains over the final scale and timing of these pressures, in part depending on the extent and duration of any downturn in the wider economy, and how far permanent changes in behaviour arising from the pandemic have an impact on the Council's income streams. The Council will need to regularly review the planning assumptions supporting the MTFP. It will also need to take early and credible action to address any budget gaps to ensure it has a sustainable financial framework over the medium term.</p>	

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

Fees

	Planned fees £	Actual fees £	2018/19 fees £
Statutory audit	54,269	62,409	51,169
Total fees	54,269	62,409	51,169

Fees for non-audit services

	Planned fees £	Actual fees £	2018/19 fees £
Audit related services	20,500	TBC	20,500
Certification of Housing Benefit Subsidy claim			
Non-Audit related services			
- None			
Total fees for non-audit services	20,500	TBC	20,500

Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table summarises all non-audit services which were identified.

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services identified are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Audit fee variation

As outlined in our audit plan the planned fee of £54,269 for 2019/20 was based on the assumption that the scope of our audit did not significantly change. However, for 2019/20 we have been required to perform additional work over and above that originally envisaged due to the impact of Covid 19. Our final fee is set out in the table overleaf.

The proposed fee variation is subject to approval by PSAA.

A. Reports issued and fees

Area	Reason	Fee proposed (£)
Scale fee		46,769
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local government audits. This has required additional audit planning and supervision, as well as additional challenge and scepticism in areas such as estimates, financial resilience and information provided by the entity.	2,500
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council (FRC) has highlighted the need for improvements by all audit firms in their work on pension valuations. This has required increases in the depth of coverage and the scope of our audit challenge, with increased levels of documentation and reporting.	1,750
Property, Plant and Equipment Valuation – work on experts	The FRC has also determined that auditors need to improve the quality of work relating to the valuation of property assets. We have therefore increased the volume and scope of our work, in particular to challenge the management assumptions underpinning the valuations.	1,750
New standards / developments	The Council is required to respond effectively to new accounting standards or technical issues. Although the planned introduction from 1 April 2020 of IFRS 16 on leases was deferred, other current issues such as the government consultation on the McCloud remedy have required additional work as part of the 2019/20 accounts.	1,500
Original planned fee per Audit Plan (March 2020)		54,269
Covid 19	The impact of Covid 19 on the audit of the 2019/20 financial statements has been substantial. Remote working arrangements have required significantly more time to obtain sufficient, appropriate audit evidence. Additional work has also been required to ; -review our planning risk assessment. An audit plan addendum was issued in August 2020; -review management assumptions and estimates, particularly those relating to property valuations, given the uncertainties created by the pandemic; and -consider the impact of the pandemic on the Council's financial sustainability.	8,140
Total		62,409



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Audit Progress Report and Sector Update

Swale Borough Council
Year ending 31 March 2021

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March 2021



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Introduction



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

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

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

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



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Progress at March 2021

2019/20 audit

Financial statements

We have completed our audit of the Council's 2019/20 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure, was issued on 27 November 2020. Our Annual Audit Letter summarising the outcomes of our audit is included as a separate item on today's agenda.

Housing Benefit subsidy claim

Our work to certify the Council's 2019/20 housing benefit subsidy claim is currently in progress. We anticipate that our work will be completed to allow certification of the claim by 28 February 2021, the extended deadline agreed with DWP. The outcomes from our work will be reported to the July 2021 Audit Committee.

2020/21 audit

Audit planning

Our planning for the 2020/21 financial statements audit will commence in March 2021. Our work will include;

- review of relevant sector information to capture any emerging issues and consider these as part of audit planning.
- discussions with management and review of key agenda papers and minutes to inform our risk assessment;
- updating our understanding of the Council's control environment and financial systems, including walkthrough testing to confirm that the design of systems is in accordance with our understanding; and
- understanding and assessing the Council's internal controls over accounting estimates as required under revised ISA540.

Due to the pandemic significantly more time has been required to complete our work on 2019/20 audits across the public sector. The pandemic will have a continuing impact on the timing of our work for 2020/21 audits, with planning work commencing later than in previous years and with some testing performed at yearend rather than as part of interim procedures. Our 2020/21 audit planning work will again be performed remotely due to the impact of the pandemic. We will liaise with management on any relevant issues.

Our 2020/21 audit plan will be presented to the July 2021 Audit Committee.

Accounts workshops for local government

In 2020/21 Grant Thornton are again running technical workshops for the preparers of local government accounts.

An invitation to the workshops will be sent to the Council's finance team

Value for Money

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

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

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

Further detail on the NAO's revised approach to VFM work can be found in the "Sector Update" section, and at: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf>

The new Code of Audit Practice issued by the NAO can be found here: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<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 2020-21 financial statements.</p>	July 2021	Not yet due
<p>Audit Findings (ISA260) Report</p> <p>The Audit Findings Report will be reported to the September Audit Committee.</p>	September 2021	Not yet due
<p>Auditor's Annual Report</p> <p>The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The final version of the AAR will be published at the same time as the Auditor's Report.</p>	September 2021	Not yet due
<p>Auditor's Report</p> <p>This is the opinion on your financial statement and Annual Governance Statement.</p>	September 2021	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 operational issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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

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

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

Public Sector

Local
government

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September 2020.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- 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.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

The Redmond Review – Local Government audit and financial reporting

Scope

- Launched September 2019.
- Led by Sir Tony Redmond, former President of CIPFA.

Purpose

To assess the:

- Effectiveness of audit in local authorities; and
- Transparency of financial report.

Context – Why the need for a review?

Local audit is facing an unprecedented set of challenges:

- Accounts have grown far more complex
- Authorities are engaging in more innovative/unusual transactions
- Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
- Audit fees have fallen to an unsustainably low level
- The sign off date of 31 July is too tight, even without Covid-19 pressures
- Retention of audit staff is very difficult in this environment
- Authorities are not getting the service they deserve
- Radical and urgent reform is needed

Areas of focus – It is a wide-ranging review

- The expectations gap
- Audit and wider assurance
- Audit quality
- The financial reporting framework
- Auditor reporting

The review had 156 responses, over 100 interviews were held, the report runs to 83 pages with 23 recommendations.

The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19 this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new firms to the local authority market has not been realised.

The Redmond Review – Local Government audit and financial reporting

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systematic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman).
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Procurement has resulted in fees which are too low

PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority, based on their level of audit risk, has been made in the past ten years.

Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors, including other parts of the public sector, have significantly risen.

- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.

Financial reporting is overly complex/not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting, e.g.:
 - Asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value.
 - Going concern disclosures are perceived to be less relevant in a local authority context than financial resilience.

Governance and transparency of reporting needs improvement

- The ability of audit committees, which mostly lack independent, technically qualified members, to consider effectively audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective, is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves. Auditors coming through the system are not developing wider understanding of LG context.
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC.
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/LASAAC.

The Redmond Review – Local Government audit and financial reporting

Sir Tony's recommendations

A call for action

- **A new regulator** – The Office of Local Audit and Regulation to replace the FRC and PSAA.
- **Scope to increase fees** – The current fee structure for local audit to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- **Move back to a September deadline** – The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- **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**.

Where next?

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation.

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



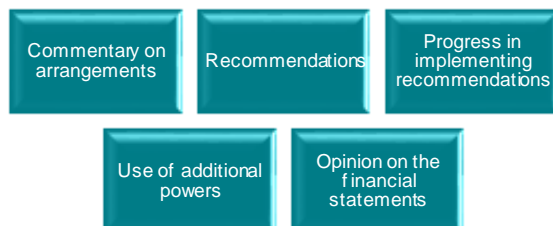
Governance

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



Auditor's Annual Report

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:



- Commentary on arrangements:** This 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.

Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on.

The risks we identify will be detailed in our Audit Plan, along with the further procedures we will perform.

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

Further information

To review the new Code and AGN03, visit the NAO's website using the link below:

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

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

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

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

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

Specifically do Audit Committee members:

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



Additional information that will be required

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

The Council's Information systems

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

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

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

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

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

Estimation uncertainty

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

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

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

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

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

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

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

How can you help

As part of our planning risk assessment procedures, we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc.

Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

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

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

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