



AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 9 March 2022

Time: 7.00 pm

Venue: Council Chamber, Swale House, East Street, Sittingbourne, ME10 3HT*

Membership:

Councillors Derek Carnell, Simon Clark (Chairman), Steve Davey, Simon Fowle, James Hall (Vice-Chairman), Ann Hampshire, Mike Henderson, Denise Knights and Peter Macdonald.

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 on 8 March 2022.

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

To approve the [Minutes](#) of the Meeting held on 24 November 2021 (Minute Nos. 440 - 447) 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. | Annual Risk Management Update 2021-22 | 5 - 32 |
| 5. | Internal Audit Plan for 2022/23 | 33 - 44 |
| 6. | Annual Audit Letter 2020/21 | 45 - 72 |

Issued on Monday, 28 February 2022

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**

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Audit Committee Meeting	
Meeting Date	9 th March 2022
Report Title	Audit Committee Annual Risk Management Report (2021-22)
Cabinet Member	Cllr Roger Truelove - Leader of the Council
SMT Lead	Lisa Fillery – Director of Resources
Head of Service	Andrew Townsend – Interim Head of Audit Partnership
Lead Officer	Alison Blake – Interim Deputy Head of Audit
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 2021/22 to update and maintain the comprehensive risk register. Including updating the corporate and operational risks and continued reporting and communication of key risk information. In addition, we have facilitated a review of the Council’s Risk Management Framework which is outlined in Appendix I and will be brought to this committee for approval once the new Committee structure is finalised.

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

5.1 The risk management framework was designed through consultation with SMT including 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 (2021-22)

8 Background Papers

- Risk Management Framework

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MID KENT AUDIT

Annual Risk Management Report

Audit Committee

March 2022



Introduction

As a Council we define risk as a **potential future event that, if it materialises, effects the achievement of our objectives**. With the focus currently being on our corporate and service (or operational) 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, and particularly to report on the operation of the processes itself. 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 receive an annual report on the operation of the process. 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 their Terms of Reference:

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

Purpose

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.

The report outlines the risk work undertaken since March 2021, including how the risk profile of the Council has changed. The report then outlines the work planned for 2022-23.

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:



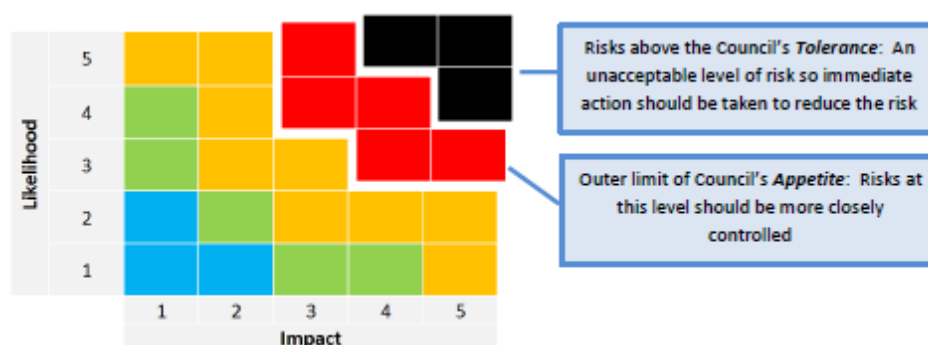
Since a risk is an event that could affect the achievement of the Council’s *objectives*, the process starts with considering what the corporate or service objectives are. Consideration is then given to what could happen in the future to affect the achievement of these objectives.

Once identified risks are then *evaluated*, with risk owners 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 occurs (the impact)
- The possibility of the risk materialising and becoming an event that needs managing (the likelihood)

Appendix Ia 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:

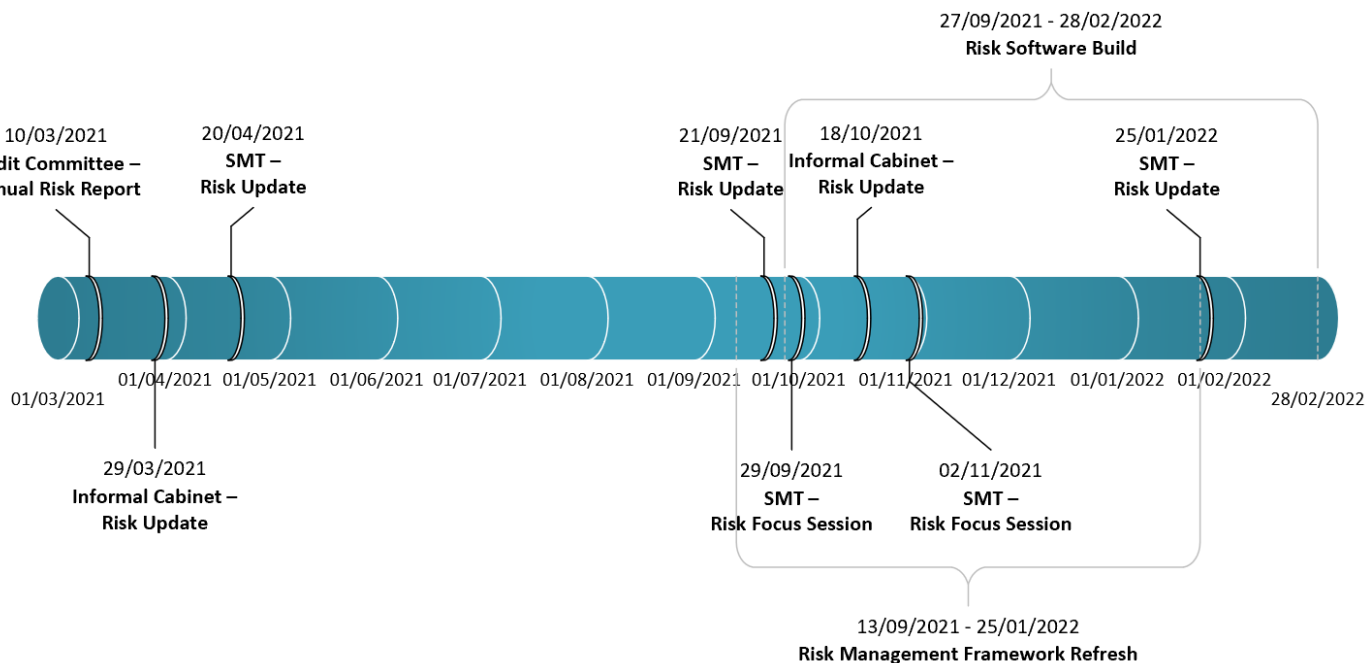
20-25	Identify the actions and controls necessary to manage the risk down to an acceptable level. Risks of this level are regularly reported to and monitored by Senior Management Team.
12-16	Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level. Risk of this level are reported and monitored by Senior Management Team each quarter.
5-10	Keep these risks on the radar and update as and when changes are made, or if controls are implemented. Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.
3-4	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.
1-2	No actions required but keep the risk on your risk register and review annually as part of the service planning process.

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 1b summarises the overall process and step 4 outlines the routine risk reporting that occurs during the year.

2020-21 Risk Processes In Action

The risk management processes outlined in the Framework have been in operation throughout the year. A budget of 47 days towards risk processes was set at the start of 20-21 and by April 2022 48 days is anticipated to have been used. The following timeline summarises the work completed:



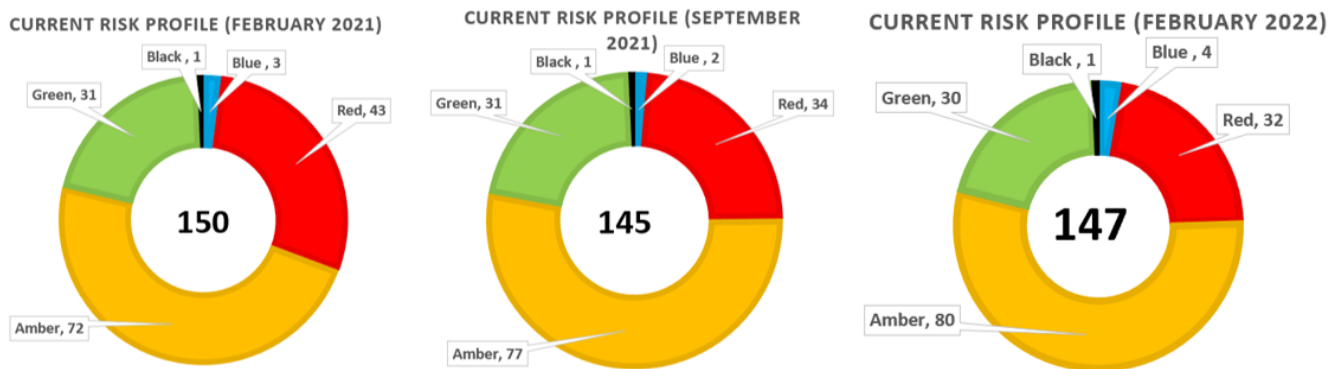
Risk Updates are usually taken to SMT four times a year. As a result of changes within the SMT and a desire to consider how to enhance the Council’s risk management arrangements the risk update usually taken over the summer was postponed.

Risk Focus Sessions were run with SMT in September and November 2021 to review and update the Council’s risk management arrangements. This allowed us to ensure that they remain fit for purpose and met the needs of the Council’s new management structure. From these sessions the Risk Management Framework has been updated. The remaining area to be captured within the revised Framework is how risk information will be reported within the new Committee structure. Once this has been updated the revised Framework will be brought to Audit Committee for agreement. In advance of this Appendix Id summarises the 3 key changes made within the Framework, namely: impact scales, likelihood scales and the risk appetite statement.

To remain effective risk management should be fully integrated across the organisation. It needs to be a valuable tool to help services meet objectives, to be proportionate and to add insight and value. Our existing risk management processes are admin intensive, restricting the time available for further work to embed risk across the Council. Furthermore, current processes require the prompting of risk leads to ensure risk information remains up to date, and services / senior management do not have ‘live’ access to their risk information. To address these issues risk management software called JCAD was purchased. The software is being built to reflect the Council’s risk management processes so that it is tailored to the Council’s approach. Most of the overall structure of the system has been built and the roll out of the system can happen once the new interface (‘Core 5’) has been released by JCAD (this is planned for completion in the next few weeks) and the revised Framework has been adopted.

During January / February 2022 the Council’s insurers Zurich have been performing a desk top review of the Framework and how risk information is reported. The report is currently being finalised but the overall conclusion is of “a strong framework and an organisation actively managing risk.” Some recommendations for improvement were raised to enhance the Council’s arrangements and many of these will be achieved following implementation of JCAD.

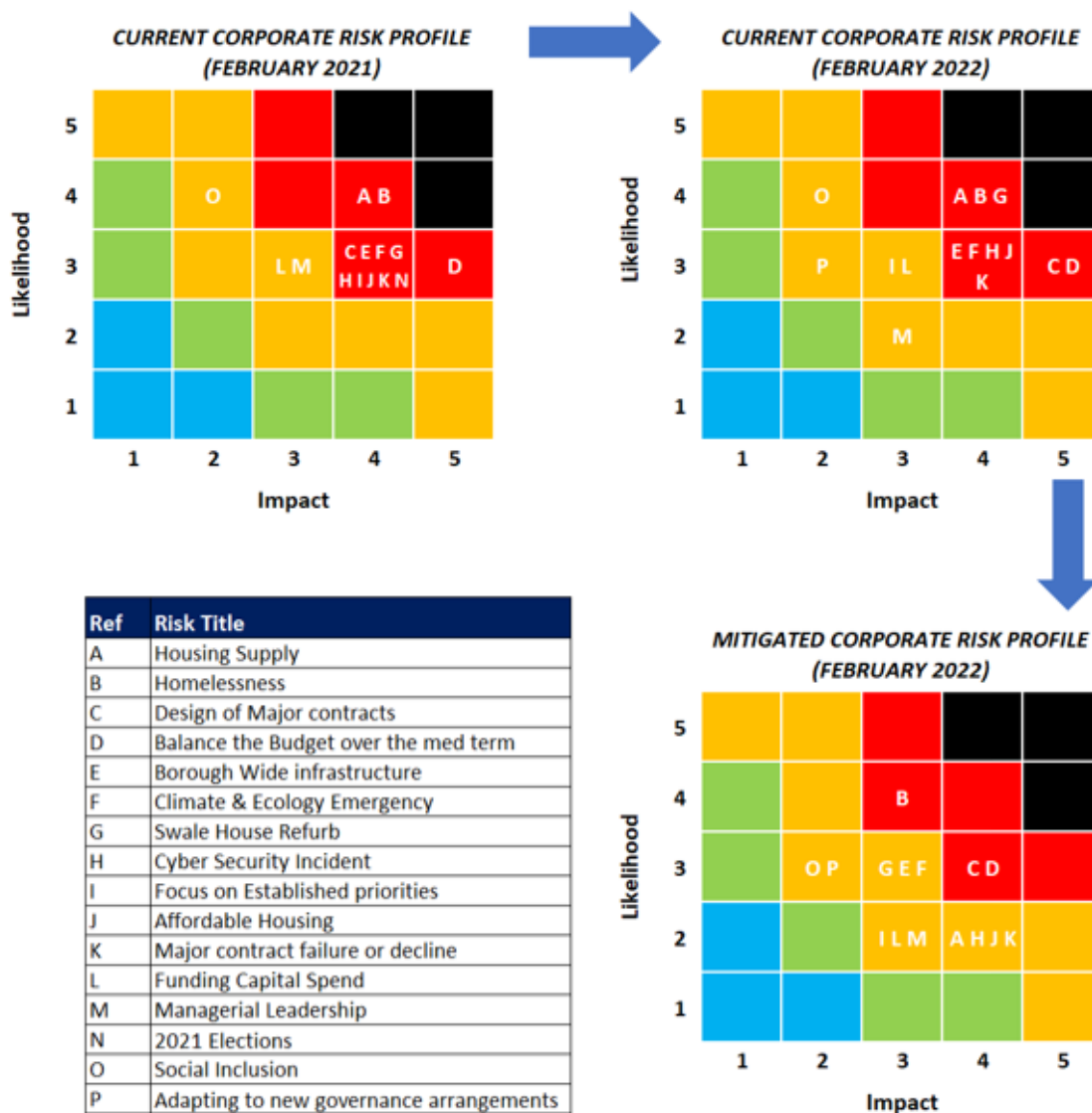
The following diagram depicts the risk profile last reported to Audit Committee in March 2021 and how it has changed during the year. The **current** rating is the risk to the Council assuming all existing controls are working as expected to manage the risk – i.e. the ‘business as usual’ position.



Further detail on the changes is provided below.

Corporate Risks

The following matrices show the current corporate risk profile and how it has changed during the year. The **current** rating is the 'business as usual' position and also shown is the **mitigated** rating – i.e. the risk to the Council in the future once all planned actions have been taken.



As you can see from the below table corporate risks have changed during the year. Including the removal of risk N *2021 Elections* following the successful completion of those elections, and the addition of risk P *adopting new governance arrangements* to reflect a potential risk arising from the new governance structure.

Ref	Risk Title	Current Risk Score (I x L)		
		Apr-21	Sep-21	Feb-22
A	Housing Supply	16 (4 x 4)	16 (4 x 4)	16 (4 x 4)
B	Homelessness	16 (4 x 4)	16 (4 x 4)	16 (4 x 4)

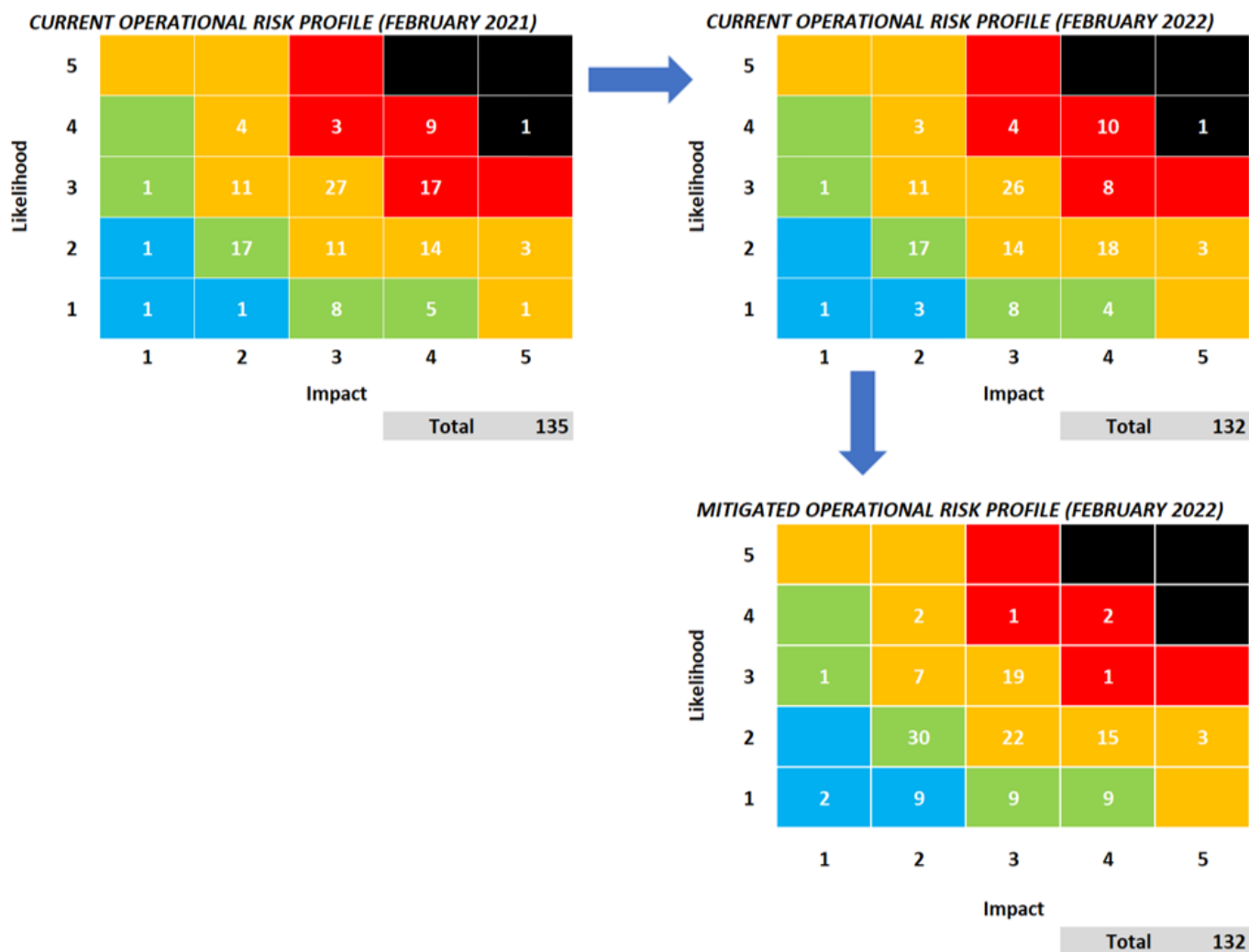
Ref	Risk Title	Current Risk Score (I x L)		
		Apr-21	Sep-21	Feb-22
C	Design of Major contracts	12 (4 x 3)	15 (5 x 3)	15 (5 x 3)
D	Balance the Budget over the med term	15 (5 x 3)	15 (5 x 3)	15 (5 x 3)
E	Borough Wide infrastructure	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
F	Climate & Ecology Emergency	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
G	Swale House Refurbishment	12 (4 x 3)	16 (4 x 4)	16 (4 x 4)
H	Cyber Security Incident	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
I	Focus on Established priorities	12 (4 x 3)	12 (4 x 3)	9 (3 x 3)
J	Affordable Housing	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
K	Major contract failure or decline	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
L	Funding Capital Spend	9 (3 x 3)	9 (3 x 3)	9 (3 x 3)
M	Managerial Leadership	9 (3 x 3)	9 (3 x 3)	6 (3 x 2)
N	2021 Elections	12 (4 x 3)	removed	
O	Social Inclusion	8 (2 x 4)	8 (2 x 4)	8 (2 x 4)
P	Adapting to new governance arrangements			6 (2 x 3)

Risks B *Homelessness*, C *Design of major contracts* and D *Balancing the budget* remain at the outer limit of the Council's risk appetite after mitigating actions have been taken. This is largely due to the ongoing effect of economic conditions.

Appendix Ic includes the full details of the Council's corporate risk register.

Operational Risks


The following matrices show the current operational risk profile and how it has changed during the year. These operational risks are the risks facing the Council’s services, including relevant shared service risks. The **current** rating is the ‘business as usual’ position and also shown is the **mitigated** rating – i.e. the risk to the Council in the future once all planned actions have been taken.



The overall number of operational risks has remained largely unchanged overall, although there has been changes within individual services with some areas removing risks and other adding them. There has also been an overall decrease in the number of red/black risks from 30 in February 2021 to 23 in February 2022. This further reduces to 4 if all mitigating actions are successfully introduced. The risks with a mitigated red rating are:

- Provision of cost of Temporary Accommodation
- IT Security Breach
- Mid Kent Legal Services - Recruitment difficulties
- Mid Kent Legal Services – Excess of work

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. Recent work with DLUHC has identified further mitigating actions that will help to reduce the risk in the future. The detail of the risk is:

Provision of cost of Temporary Accommodation			
Service Area: Housing & Community Services	Ownership: Roxanne Sheppard	Score: 15 x L4	20
Risk <i>Not enough access to temporary accommodation or a lack of supply causes costs to increase. Additionally, a strong reliability on external funding.</i>	Existing Controls <ul style="list-style-type: none"> • Various suppliers utilised • Good relationship with suppliers • Costs negotiated • Direct Lets • Ongoing work with DLUHC 	Risk Response <ul style="list-style-type: none"> • Procurement exercise with MBC and TWBC to go to market to negotiate a better deal with TA providers • Refresh incentives for landlords • Link to project on reducing demand for TA 	
Last risk review: February 2022	Risk direction over time: 	Score: 14 x L4	16

Appendix Ie includes the details of the Council’s operational risk register.

Risk Work Plan

As part of the wider Mid Kent Audit annual planning process, we consider the work needed to support the Council in maintaining effective risk management arrangements. This involves reflecting on the work delivered during 2021-22 and balancing the work plan for the coming year with the needs of the Council and the resources available.

The following provides an overview of the risk work planned for 2022-23, and the key areas of focus for our work. We appreciate that circumstances are changeable and so the plan will be kept under review and amended where necessary.



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.

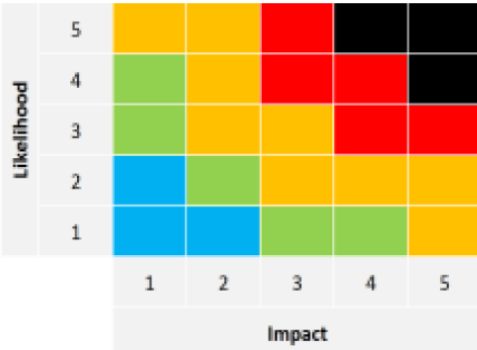
RISK IMPACT

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>

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>Homelessness Increases in homelessness from the lifting of the eviction ban and other social economic impacts from the pandemic create additional workload and increased cost burden for the Council.</p>	Ben Martin & Charlotte Hudson	1) Review of temporary accommodation provision and maximising use of public sector assets through joint working with social housing partners and considering other opportunities (e.g. use of void accommodation) 2) Council purchase of properties to use as temporary accommodation and supporting / influencing developers to unlock additional social housing 3) Landlord incentive scheme and close working with landlords and housing providers to incentivise private sector housing options and negotiate temporary accommodation costs 4) Housing Allocations Policy reviewed 5) Homeless Prevention Team in place 6) Forecasting of homelessness spend and adjustments to budgets made as part of medium-term financial planning.	16 (4 x 4)	1) Undertake a tender process for provision of temporary accommodation 2) Increasing supply of affordable housing to increase rental supply 3) Review all those in temporary accommodation households to ensure accommodation is being used, benefit claims are maximised and appropriate support given 4) Action plan to be developed in response to DLUCH visit to determine further mitigations	12 (3 x 4)
<p>Swale House Refurbishment As a result of cost uncertainties in the construction market the refurbishment of Swale House does not achieve environmental benefits and/or does not support 'new ways of working'.</p>	Monique Bonney & Emma Wiggins, Joanne Johnson	1) Carbon Trust report includes carbon emissions for the building to help identify improvements 2) Office waste contract tender exercise includes value and supports objectives 3) Participation in Climate & Ecological Emergency group 4) Consultant (Quartz) in place to provide advice to project team 5) Swale House Refurbishment report to Cabinet March 2021 agreeing detailed proposals for the refurbishment	16 (4 x 4)	1) increase cost analysis work, and work with Quartz to assess the tenders received during February 2022, in advance of March Cabinet report.	9 (3 x 3)
<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	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	16 (4 x 4)	1) Local Plan review being progressed 2) Promote sites with early delivery programmes, e.g. park homes proposals etc 3) 2021 Housing Delivery Action Plan agreed and review annually whilst dealing with lack of 5year supply issue	8 (4 x 2)

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>	<p>Roger Truelove Julian Saunders, Angela Harrison & Martyn Cassell</p>	<ol style="list-style-type: none"> 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>15 (5 x 3)</p>	<ol style="list-style-type: none"> 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 – updates expected early 2022 4) Design of waste specification completed with careful consideration of financial implications throughout decision making process. Competitive dialogue process started and to continue throughout 2022 5) GM contract completed and in final transition 	<p>12 (4 x 3)</p>
<p>Balancing the Budget over the medium term 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>	<p>Roger Truelove & Lisa Fillery</p>	<ol style="list-style-type: none"> 1) Budget setting & monitoring process and Medium Term Financial Plan 2) Awareness of proposed changes to local government finance 3) Information sharing at Chief Finance Officers and Chief Accountants Groups 4) Use of specialist local government financial consultants 5) Reserves strategy 6) Income generation initiatives 7) Ongoing regular reporting to SMT and the Leader, including a Finance Sub Group to consider the budget and fees & charges 	<p>15 (5 x 3)</p>	<ol style="list-style-type: none"> 1) All services working towards achieving savings targets for 22-23 budget 2) Aligning the fees & charges and budget setting process 3) Future decision making to ensure resources match spending plans 	<p>12 (4 x 3)</p>
<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>	<p>Mike Baldock, James Freeman & Joanne Johnson</p>	<ol style="list-style-type: none"> 1) Regular communication with developers, KCC, Kent CCG and infrastructure agencies (i.e. highways) government 2) Independent specialist advice / support to work on viability / realistic development modelling 3) Pursue funding opportunities/lobby agencies and Government/support delivery agencies to progress schemes 4) Creation of Head of Regeneration & Economic Development increases capacity for seeking public funding 	<p>12 (4 x 3)</p>	<ol style="list-style-type: none"> 1) Continue to strengthen relationships and communications with developers 2) Exploring development strategy options in the review Local Plan to support local bids and funding 3) Junction 5 proposals underway and due to be completed by 2024 4) Pursue private sector funding streams 5) Key Street and Grovehurst junctions also agreed and start in 2022 6) Pursuing commitment for major improvement to M2J7 with KCC and Canterbury CC (7) Levelling-Up Fund bid under development for Sheerness: £125k capacity funding received from government to develop business case. 	<p>9 (3 x 3)</p>

Risk (title / full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
Climate & Ecology Emergency The Council is unable to deliver the climate & ecological emergency motion agreed at Council in June 2019.	Tim Valentine & Martyn Cassell	1) Climate & ecology emergency Member / officer steering group established 2) Annual report to Council to monitor progress 3) Corporate Action Plan being delivered	12 (4 x 3)	1) Swale House refurbishment 2) New Local Plan 3) Environmental gains being made in major contracts 4) Revision of action plan including focus on top 10 actions	9 (3 x 3)
Cyber Security Incident Security breach or system weakness leads to cyber-attack that results in system unavailability and financial or legal liability.	Roger Truelove & Julie May	1) Effective backup arrangements 2) External testing 3) ICT policies & staff training, including disaster recovery plan 4) Cyber security testing & training, plus awareness quarterly campaigns 5) Nessus scanning software reporting daily on system vulnerabilities 6) Darktrace enterprise cyber immune system deployed	12 (4 x 3)	1) A new firewall (TRAPS) has been partly installed and will be completed by the end of the year. 2) Agree a Cyber Incident Response Procedure with all 3 authorities – end April 2022	8 (4 x 2)
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 9) Local Housing Company set up and director appointed to lead on development of sites	12 (4 x 3)	1) Deliver 3 development sites agreed by Cabinet 2) Monitor market for land acquisitions 3) Acquire suitable land to enable development of Affordable Housing	8 (4 x 2)
Major Contractor Failure or Decline Contractor financial difficulties in general or impacts from COVID-19/external complications 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 6) Routine financial checks	12 (4 x 3)	1) Increased discussions with contractors around the impact of COVID-19 / other external issues 2) Supporting contractors to undertake new initiatives to resolve problems	8 (4 x 2)

Risk (title / full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
<p>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.</p>	Roger Truelove & SMT	<ol style="list-style-type: none"> 1) Agreed corporate plan priorities which have been prioritised and are being monitored through Pentana 2) Service planning process for 2022/23 designed to relate activity more explicitly to resources and priorities 3) Regular one-to-one meetings between cabinet members, deputies and heads of service and regular Cabinet meetings on progress of priorities 4) Robust budget-setting process 5) New cabinet subgroups to drive forward work on key priorities 6) Single CLT member identified to monitor/coordinate cross-cutting work on each corporate-plan objective 7) Directors have overall responsibility for the delivery of the priorities 8) Annual report process to be focused on corporate-plan objectives 9) Business cases prepared to link projects to priorities & corporate plan 	9 (3 x 3)	1) An LGA Peer Review happened in September on Recovery - next steps to publish report and deliver actions	6 (3 x 2)
<p>Funding Capital Spend Delivery of coalition priorities requires capital spend which cannot be accommodated within the revenue budget. Including pressures from delivery of Swale House Refurbishment and lending to Rainbow Homes.</p>	Roger Truelove & Lisa Fillery	<ol style="list-style-type: none"> 1) Revenue implications of capital explicitly funded through revenue budget 2) Liaison with commercial tenants 3) All capital projects to have business case agreed by Cabinet 	9 (3 x 3)	<ol style="list-style-type: none"> 1) Capital schemes may generate new revenue income streams 2) Generation of capital receipts through selling assets 3) North Kent Pooled Business rate fund to meet capital costs 4) Work more closely with commercial tenants 5) Consultant working on the Rainbow Homes business case and reviewing costs 	6 (3 x 2)
<p>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.</p>	Richard Palmer & Charlotte Hudson	<ol style="list-style-type: none"> 1) Grant funding available (e.g. citizens advice bureau, winter grants and housing support fund) 2) Social Inclusion Worker in post 3) Breaking Barriers Initiative Project initiated 	8 (2 x 4)	<ol style="list-style-type: none"> 1) Position statement to understand what is currently done and where the gaps are 2) Development of Strategy and identification of outcomes 3) Part of KCC Xantura pilot to support low income families 	6 (2 x 3)
<p>As a result the introduction of the committee structure members / officers initially struggle to adapt to new governance arrangements, leading to potential reduction in performance.</p>	Roger Trulove & David Clifford	<ul style="list-style-type: none"> - Member briefings - officer training on presenting to committees - training for current Cabinet Members 	6 (2 x 3)	<ul style="list-style-type: none"> - legally compliant Constitution - ongoing training for Members and Officers to be made available - ability to update Constitution as the process comes into effect 	6 (2 x 3)

Risk (title / full description)	Risk Owner	Key Existing Controls	Current rating (I x L)	Controls planned	Mitigated rating (I x L)
<p>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.</p>	<p>Roger Truelove & SMT</p>	<p>1) Agreed corporate plan priorities 2) Service planning process for 2022/23 designed to relate activity more explicitly to resources and priorities 3) Regular one-to-one meetings between cabinet members, deputies and heads of service and regular Cabinet meetings on progress of priorities 4) Robust budget-setting process 5) Senior leadership team restructured and management team meetings reviewed to ensure membership is appropriate and focus is strategic</p>	<p>6 (3 x 2)</p>	<p>1) Reviewing staff engagement plan following BeHeard survey results 2) Procurement underway for culture change and leadership development for senior staff</p>	<p>6 (3 x 2)</p>

Risk Management Framework Updates

This summarises the key changes proposed to the Framework following consultation with SMT.

Likelihood

These scales have been updated to refine the probabilities, reducing the maximum probability down from 90% and re-distributing the other levels. The description has also been updated to incorporate a timeframe over which the risk may occur allowing the Council to identify those risks which will affect the Council quickest.

Level	Probability	Description
Highly Probable (5)	80% +	Without action is likely to occur; frequent similar occurrences in local government / Council history or anticipated within the next 6 months.
Probable (4)	60% - 80%	Similar occurrences known often in local government / Council history or anticipated within the next 12 months.
Possible (3)	40% - 60%	Similar occurrences experienced in local government / Council history or anticipated within the next 18 months.
Unlikely (2)	20% - 40%	Not unheard-of occurrence in local government / Council history. Anticipated within the next 2 years.
Rare (1)	0% - 20%	Seldom occurs; no recent similar instances in local government / Council history.

Impact

While the upper limit of the financial category provides a reasonable guide to the kind of costs that could materially affect the Council, the breakdown of the financial limits in levels 1 to 4 was not balanced. The financial limits have therefore been adjusted.

The service impact category was made up of two factors: effect of risk on the service and effect on the strategic priorities. In practice the effects on service were hard to measure using the existing scales as it was difficult to judge whether individual service failings had a major impact on the Council as a whole. The service impact category has been updated to remove reference to strategic priorities and provide a sense of the extent to which a service impact will affect the Council more widely.

Reputation scales remain unchanged, and a wellbeing category has been added. The Health & Safety impact has been incorporated into the legal / compliance category.

The revised impact scales are as follows:

Level	Service	Reputation	Wellbeing	Legal/Compliance	Financial	Strategic Objectives
Catastrophic (5)	Ongoing failure to provide an adequate service in a key area	Perceived as a failing authority requiring intervention	Significant staff dissatisfaction, long term absence, or increased staff turnover including key personnel	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment. Possible responsibility for death.	Uncontrollable financial loss or overspend over £1.5m	Failure to deliver multiple key priorities
Major (4)	Key service areas disrupted 5+ days Other service areas ongoing failure	Significant adverse national publicity	Adverse staff dissatisfaction, or increased absence and turnover of staff	Litigation expected and uncertain if defensible. Breaches of law punishable by significant fines. Fails to prevent death, causes extensive permanent injuries or <u>long term</u> sick	Financial loss or overspend greater than £1m	Failure to deliver key priority
Moderate (3)	Key service disruption 3-5 days Other service disruption 7+ days	Adverse national publicity of significant adverse local publicity	Declining staff satisfaction, or some loss of staff due to absence or turnover	Litigation expected but defensible. Breaches of law punishable by fines. Fails to prevent extensive permanent injuries or <u>long term</u> sick.	Financial loss or overspend greater than £700k	Unsatisfactory delivery of priorities
Minor (2)	Key service disruption 2 days Other service disruption 2-7 days	Minor adverse local publicity	Short-term dissatisfaction, minor loss of staff due to absence or turnover	Complaint or litigation possible. Breaches of regulations or standards. Long term injuries or sickness.	Financial loss or overspend greater than £100k	Poor delivery of priorities
Minimal (1)	Any service disruption 1+ day	Unlikely to cause adverse publicity	Loss of staff morale but unlikely to result in absence or turnover of staff	Unlikely to cause complaint. Breaches of local procedures.	Financial loss or overspend under £100k	Minimal reduction in delivery of priorities

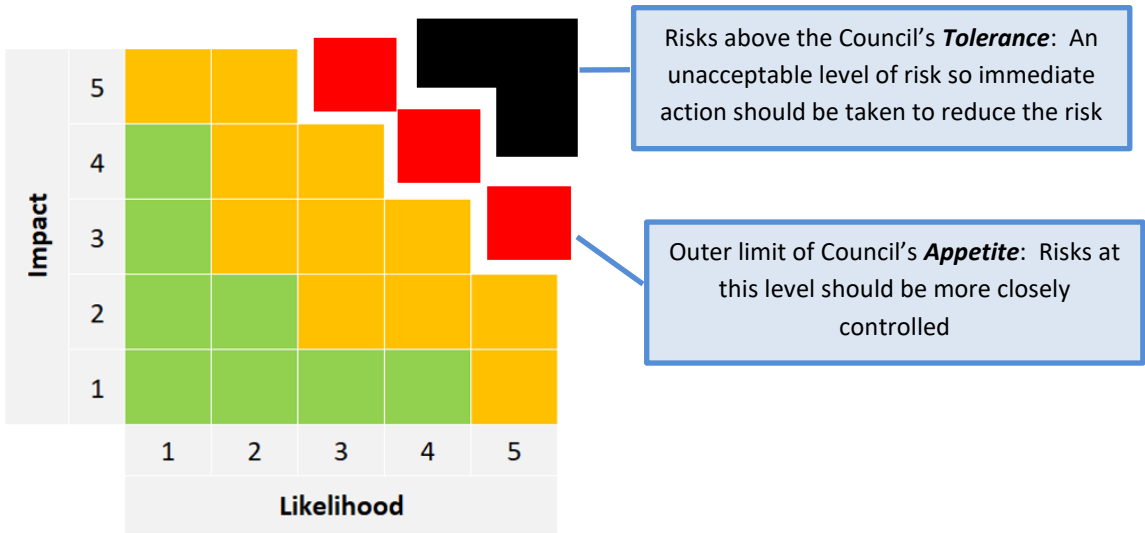
Risk Appetite

Our **risk appetite** guides how much risk we are willing to seek or accept to achieve our objectives. Beyond our risk appetite is our **risk tolerance**. This sets the level of risk that is unacceptable, whatever opportunities might follow. In such instances we will aim to reduce the risk to a level that is within our appetite. Feedback from SMT was to have one scale for all risk types. As such the existing statement has been kept with some adjustments, namely:

- Removal of the **blue** priority as there is very little distinction between this and the **green** priority.
- Adjusting the **red** priority to change risk scores of 12 to **amber**. This better reflects the Councils' approach to managing these risks as there is little focus on risks scored at 12 at SMT / Member level.
- Swapping Impact and Likelihood around in the matrix to reflect the approach commonly used when presenting this information in a matrix format.







The statement will therefore read as follows:










*We illustrate our risk appetite and tolerance in the matrix below. The **RED** area represents the outer limit of our risk appetite, and the **BLACK** area indicates the tolerance. As a Council we are not willing to take risks that have significant negative consequences on the achievement of our objectives.*





Operational Risk Register – High risks

The following table is an extract from the comprehensive risk register and outlines the Council's operational risks. *The **current** rating is the rating assuming existing controls are working effectively.*

Service	Risk Title	Current Risk Score (I x L)		Movement over time	Mitigated Risk Score (I x L)
		April 2021	February 2022		
Leisure & Technical Services	Eastchurch Cliff Slide Financial impact on Local Authority and Shoreline Management plan of Eastchurch Cliff Slide	16 (4 x 4)	12 (4 x 3)		9 (3 x 3)
Finance	External Audit of Statutory Accounts to deadline As a result of difficulties in recruitment the external auditors are unable to resource the audit of the financial accounts in time to meet the statutory deadline.	12 (3 x 4)	12 (3 x 4)		6 (3 x 2)
Finance	Staffing Heavy reliance on a core of highly experienced staff, inability to recruit agency and new staff during coronavirus pandemic	12 (4 x 3)	12 (4 x 3)		8 (4 x 2)
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	16 (4 x 4)	16 (4 x 4)		8 (4 x 2)
Housing	Affordable Housing Project Due to the affect of the pandemic and Brexit on the construction industry the scheme becomes financially unviable due to changes in the economic environment	8 (4 x 2)	12 (4 x 3)		4 (4 x 1)
Housing Options	Provision of cost of Temporary Accommodation Not enough access to temporary accommodation or a lack of supply causes costs to increase. Additionally a strong reliability on external funding.	20 (5 x 4)	20 (5 x 4)		16 (4 x 4)

Service	Risk Title	Current Risk Score (I x L)		Movement over time	Mitigated Risk Score (IxL)
		April 2021	February 2022		
Housing Options	Staff recruitment and retention Limited ability to recruit to posts and retain staff particularly due to remuneration package	16 (4 x 4)	16 (4 x 4)		4 (2 x 2)
Housing Options	Safeguarding Concerns Missed Increased caseload results in missed safeguarding issues	12 (4 x 3)	16 (4 x 4)		8 (4 x 2)
Housing Options	Rough Sleepers - Budget Unexpected demand leads to budget overspend	16 (4 x 4)	16 (4 x 4)		9 (3 x 3)
Licensing	Recruitment of Licensing Team Leader Lack of time to progress recruitment for resourcing Licensing Team Leader	12 (3 x 4)	12 (3 x 4)		6 (3 x 2)
Planning Services	New Planning Regs - Loss of Income The new Planning Regulations cause a loss of income from fewer planning applications	16 (4 x 4)	16 (4 x 4)		9 (3 x 3)
Planning Services	Planning resources Without maintaining adequate staffing levels the service would be unable to meet workload requirements and maintain quality of outputs	9 (3 x 3)	12 (4 x 3)		9 (3 x 3)
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	12 (4 x 3)	12 (4 x 3)		4 (2 x 2)
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	12 (3 x 4)	12 (3 x 4)		4 (2 x 2)
Democratic Services	Insufficient Resources Not enough resources to effectively manage changes to Committee meetings (Local plan, Area Committees, re-organised from Covid)	12 (4 x 3)	12 (4 x 3)		2 (2 x 1)

Service	Risk Title	Current Risk Score (I x L)		Movement over time	Mitigated Risk Score (IxL)
		April 2021	February 2022		
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	16 (4 x 4)	16 (4 x 4)	—	9 (3 x 3)
MKS IT	IT Security Breach A failure in investment or training could result in costly and/or reputational damage	16 (4 x 4)	16 (4 x 4)	—	16 (4 x 4)
Mid Kent Audit	Resource constraints As a result of resource constraints we are unable to deliver the assurance plan and a robust opinion	9 (3 x 3)	16 (4 x 4)	^	9 (3 x 3)
Mid Kent Audit	Ineffective Recruitment and Onboarding As a result of poor recruitment and onboarding practices we engage staff (team or contract) who do not deliver as expected. Causing disruption to the team and a decrease in the quality of our work. This is particularly relevant to the transitioning of the substantive Head of Audit	16 (4 x 4)	16 (4 x 4)	—	8 (4 x 2)
Mid Kent Audit	Loss of Motivation, health & wellbeing Losing / failing to maintain positive and motivated team members as a result of changes in process and staff including impact of Covid & remote working. Leading to a loss of health & wellbeing and increased absence levels	12 (4 x 3)	16 (4 x 4)	^	8 (4 x 2)
Mid Kent Environmental Health	Insufficient Resources (Staff) As a result of difficulty recruiting or managing covid absence there is insufficient resources to respond to requirements of FSA and other statutory responsibilities (including Covid)	12 (4 x 3)	12 (4 x 3)	—	6 (2 x 3)

Service	Risk Title	Current Risk Score (I x L)		Movement over time	Mitigated Risk Score (IxL)
		April 2021	February 2022		
MKS Legal Services	<p>Recruitment Difficulties</p> <p>Changes in staffing and difficulty recruiting leading to difficulty managing workloads - The pay levels in particular areas of law still creates difficulties in recruitment/ retention, adversely impacting the ability of MKLS to recruit experienced senior lawyers in the area of Contracts/Procurement</p>	6 (2 x 3)	16 (4 x 4)		12 (4 x 3)
MKS Legal Services	<p>Excess of Work</p> <p>Pressures of large projects and day to day work creates excessive demand across MKLS</p>	6 (2 x 3)	12 (3 x 4)		12 (3 x 4)

Audit Committee Meeting	Agenda Item
Meeting Date	9 March 2022
Report Title	Internal Audit & Assurance Plan 2022/23
Cabinet Member	Cllr Roger Truelove, Leader of the Council
SMT Lead	Lisa Fillery, Director of Resources
Head of Service	Head of Audit Partnership
Lead Officer	Head of Audit Partnership
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. Approve the Internal Audit & Assurance Plan for 2022/23. This includes delegating to the Head of Audit Partnership authority to keep the plan current as set out in the appendix. 2. Note the report's view that the Partnership currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion. 3. Note the report'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 2022/23** 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. The Audit Plan has been prepared in advance of the appointment of the substantive Head of Audit for Mid Kent Audit Partnership. The new Head of Audit may wish to propose changes to the audit coverage and so may review the Plan will after their appointment. Any proposed changes and the rationale for such changes will be communicated to Audit Committee Members.

3 Proposal

- 3.1 The appendix sets out the proposed plan for 2022/23, 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 Resource and Property	The work programme set out in the plan is produced to be fulfilled within agreed resources for 2022/23.
Legal, Statutory and Procurement	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.
Environment and Climate/Ecological Emergency	No direct implications.

Issue	Implications
Health and Wellbeing	No direct implications.
Safeguarding of Children, Young People and Vulnerable Adults	No direct implications.
Risk Management and Health and Safety	The audit plan draws on the Council's risk management in considering the areas for audit examination. In turn, audit findings will provide feedback on the identification, management and controls operating within the risk management process.
Equality and 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 2022/23

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 2022/23

Swale Borough Council



Introduction

1. This risk-based internal Audit Plan for 2022/23 provides adequate coverage to enable an annual Head of Audit Opinion to be made at the end of the financial year.
2. Planning during a period of uncertainty and change is problematic. It is therefore important that this Audit Plan has the flexibility to adapt and adopt to the changes as they develop during the forthcoming financial year.

Risk Assessments

3. The Public Sector Internal Audit Standards direct that audit planning is built upon a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. This Plan for 2022/23 represents the current views now, but it will be necessary to continue to reflect and consider the audit response as risks and priorities change across the year. A specific update report will be provided to Members midway through the year.

Global and Sector Risks

4. In considering global and sector risks the risk assessment draws on various sources such as the IIA and CIPFA.
5. This year will continue to be another challenging year for Local Government in terms of funding, managing additional recruitment and technological advancement, which in turn may impact on the adequacy and effectiveness of the governance, risk and control framework of the Council. A number of key areas which require consideration when planning the internal audit coverage are set out below. These areas cut across many of the activities carried out by the Council. These areas are not a full listing, nor are they in any priority order. Indeed many are not mutually exclusive of each other.

“Multi-channel” customer engagement: Partly as a result of COVID-19 but also as process changes through improved technology, councils will need to embrace cutting edge technology. Adopting a multi-channel approach to customer engagement will enable council services to be more readily available, more accessible and more transparent.

Commercialisation: Councils are being driven towards being more self-sufficient and cost effective, with pressure to close funding gaps and rebalance budgets. Councils will already be operating in different financial and more commercial environments which have been tested by the business disruption associated with the COVID Pandemic.

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Cyber Security: As more services move on-line, risks and vulnerabilities are likely to increase. Cyber security is as much about awareness and behaviours as it is about network security. Resilience needs to be regularly and stringently stress tested across the organisation to ensure it is operating effectively.

Financial Viability: As the UK emerges from the clutches of the pandemic and some degree of normality returns Councils will be faced with the reality of unbalanced medium term financial plans without including significant potential savings. Realisation of these savings could be challenging and if not achieved at the outset will fail to provide the funds needed to ensure a balanced budget.

Staff Wellbeing: COVID-19 has led to mental health declines, increased work demands and feelings of loneliness due to remote working. Staff turnover is at an all time high. Managing the wellbeing and associated risks is crucial to ensure a stable workforce.

Climate Change: Councils are taking action to reduce their own carbon emissions and working with partners and local communities to tackle the impact of climate change on their local area.

Inflation: The forecast rises in inflation after a long period of stability is likely to impact upon term contracts as well as budget management.

Council specific Audit Risk Review

6. This risk review incorporates two elements. The first element is the service's relative materiality to the Council's overall objectives and controls. The assessment includes consideration of:



Finance Risk: The value of funds flowing through the service.



Priority Risk: The strategic importance of the service in delivering Council priorities.



Support Service Risk: The extent of interdependencies between Council departments.

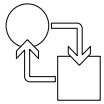
7. The Council's external auditor was requested to advise if there were any areas that internal audit should include in the Audit Plan, and it was confirmed that there were no such areas.

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8. The second element considers the reputational aspects of a failure of the effective operation of the internal control arrangements. The assessment includes consideration of:



Oversight Risk: Considering where other agencies regulate or inspect the service.



Change Risk: Considering the extent of change the service faces or has recently experienced.



Audit Knowledge: Considering the outcomes not just the last internal audit review, but any other information that has been gathered from, for example, following up agreed actions.



Fraud Risk: Considering the susceptibility of the service to fraud loss.

Audit Risk Prioritisation

9. The results of these various risk assessments provide a provisional Audit Plan. The provisional Plan is consulted on with the Managers, Heads of Service and Corporate Leadership Team to get their perspective on the audit assessment and from this this Risk Based Audit Plan for the financial year is produced.

Risk Based Audit: 270 Days

10. The primary part of Audit Plan is delivering risk based audit engagements. The list below is in alphabetical and does not imply any ranking within the group or intended delivery order. The timings for the individual reviews will be agreed with a suitable officer sponsor once the Plan has been approved.
11. The Audit Plan has been prepared in advance of the appointment of the substantive Head of Audit for MKA. The new Head of Audit may wish to propose changes to the audit coverage and so may review the Plan will after their appointment. Any proposed changes and the rationale for such changes will be communicated to Senior Management Teams and Audit Committee Members.
12. These are the **16** engagements that require to been undertaken to support a robust opinion at year end.

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High Priority Engagement Title & Draft Objectives	
1. Website and accessibility	To review the Council's website for ease of use and accessibility documents.
2. Waste Contract Tendering (Cross cutting)	To review the tendering arrangements for the cross cutting waste contract.
3. Accounts Payable	To review payments, changes to supplier details are all valid, authorised and processed promptly, and that reconciliations are completed.
4. Accounts Receivable	To review invoices to customers are raised correctly, amounts received are allocated to the correct account, journals from the income suspense account, and reconciliation are completed.
5. BACS Project	To review the controls around the new BACS system.
6. Private Sector Housing	To review the private Sector Housing framework.
7. Temporary Accommodation	To review the framework around monitoring and allocating of the temporary accommodation.
8. Asset inspections	To review the processes around asset inspections around playgrounds and projects.
9. Committee Management	To review the changes to the Governance / committee structure.
10. Facilities management	To review there is a robust maintenance plan in place, and the processes around reactionary repairs.
11. Project Management - Swale House	To review the project management around the Swale House refurbishment.
12. Election Management	To review the framework around the management of elections.
13. Maintenance of open spaces	To review the programme of maintenance of seafronts and other open spaces.
14. Licencing enforcement	To review the framework of licencing enforcement.
15. IT Back-Up & Recovery¹	To seek assurance on the effectiveness of controls to back up the Council's data

¹ Shared Service with Swale & Tunbridge Wells

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High Priority Engagement Title & Draft Objectives

To seek assurance on recovery of the Council's data after a loss event.

16. Network Security¹

To seek assurance on management of the security of Network controls, including remote access control.

Follow-up of Agreed Actions: 20 days

13. Time has been allocated to following up the actions arising from internal audit recommendations made and reporting the results to Senior Officers and Members.

Consultancy & Member Support: 50 days

14. A consultancy allocation provides general and specific extra advice or training to the Council. This allocation also provides support to Members, through attendance at and reporting to Committees.
15. This fund also provides a contingency to avoid having to cut short engagements and allow full exploration of significant findings.

Risk Management: 50 days

16. At Swale MKA's responsibility encompasses tasks such as leading the risk management framework, keeping and updating strategic and operational risk registers. The responsibility for managing the identified risks remains with the relevant risk owners. MKA also compiles risk reporting to Senior Officers and Members, including an annual report to this Committee.
17. The plans for developing risk management in 2022/23 are set out in the Annual Risk Management Report.

Planning: 20 days

18. This time is allocated to complete the major part of the annual planning exercise, including updating risk assessments and consultation across the Council. The time is also used for identification of risks and issues across the Council, the wider public sector and the audit profession. This ensures the Audit Plan can remain dynamic and responsive to risk through the year.

Counter Fraud Support: 20 days

19. At Swale MKA's responsibilities include writing and updating Counter Fraud and Whistleblowing policies, providing a channel for officers to raise concerns under the Public Interest Disclosure Act. MKA also acts as lead contact for the National Fraud Initiative, a data matching exercise co-ordinated by the Cabinet Office.
20. For 2022/23 it is intended to compile more detailed procedures for investigations, drawing on Cabinet Office 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.
21. The counter fraud support role also includes conducting investigations on matters of concern. Additional time may be required for such work.

Resourcing the Audit Plan

22. MKA is currently going through a period of significant staffing change. A number of senior posts are currently filled on an interim basis and it is likely to be November 2022 at the earliest before all the substantive posts are filled.
23. MKA also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts.
24. The overall resource level is therefore based on the current audit team establishment and the chargeability for each grade. This calculation produces an available number of days across the four Councils to which MKA provides the internal audit service of 1,740 days.
25. Each Council receives a share in keeping with their contribution to the overall partnership budget. The Collaboration Agreement is planned to be subject to a comprehensive review during 2022/23. Based on the current Agreement Swale's 2022/23 Audit Plan has **430 days** to assign. This includes time to complete work carried forward from 2021/22.
26. MKA has the skills and expertise to deliver the 2022/23 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2022/23 to be delivered in Spring 2023.

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Audit Committee	
Meeting Date	9 March 2022
Report Title	Annual Audit Letter 2020/21
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance
SMT Lead	Lisa Fillery, Director of Resources
Head of Service	Phil Wilson, Head of Finance and Procurement
Lead Officer	Phil Wilson, Head of Finance and Procurement
Classification	Open
Recommendations	<p>Members are asked to:</p> <ol style="list-style-type: none"> 1. Note the external auditor's Annual Report (Appendix I); 2. Consider recommendation 1 in the report: "Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web"; 3. Consider recommendation 2 in the report: "A savings plan based on the medium term financial plan budget projections to 2023/24 will need to be developed"; 4. Consider recommendation 3 in the report: "Consideration should be given to a formal or structured consistent approach to benchmarking, appropriate to the Council's circumstances, to identify areas of potential high unit costs or low outcomes for further investigation".

1. Purpose of Report and Executive Summary

- 1.1 At the Audit Committee held on 26 October 2021, Grant Thornton provided their Audit Findings Report on the key matters arising from the audit of the Council's Annual Financial Report for the year ended 31 March 2021.
- 1.2 The Annual Audit Report considers whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

2. Background

- 2.1 The purpose of the Annual Audit Report has changed from previous years. On 1 April 2020, the National Audit Office (NAO) introduced a new Code of Audit Practice which came into effect in 2020/21, which 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 by the auditors on arrangements across all the key criteria.
 - Auditors undertaking analysis on the Council's VFM arrangements to arrive at a more sophisticated judgement on performance as well as key recommendations identified during the audit.

2.2 The Auditor's Annual Report provides the Audit Committee with the results of this revised approach to reviewing the Council's VFM arrangements covering the three key criteria listed above.

3. Proposals

- 3.1 The Auditor's Annual Report for the year ended 31 March 2021 is attached as Appendix I.
- 3.2 It includes three recommendations which are detailed in the report and management comment has been provided for each one.
- 3.3 The Audit Committee is asked to consider these three recommendations.

4. Alternative Options

- 4.1 The Audit Committee could choose to accept, reject or consider further each of the three recommendations.

5. Consultation Undertaken or Proposed

- 5.1 The Director of Resources was invited to comment on the three recommendations.

6. Implications

Issue	Implications
Corporate Plan	Good financial management is key to supporting the Corporate Plan objectives.
Financial, Resource and Property	The External Auditor's opinion is that the Council's accounting statements give a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year then ended.
Legal, Statutory and Procurement	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations as amended by the Accounts and Audit (Amendment) Regulations 2021.
Crime and Disorder	No direct issues
Environment and Climate/ Ecological Emergency	No direct issues

Issue	Implications
Health and Wellbeing	No direct issues
Safeguarding of Children, Young People and Vulnerable Adults	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues
Privacy and Data Protection	No direct issues

7. Appendices

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

7.1.1 Appendix I: Auditor's Annual Report

8. Background Papers

8.1 Detailed working papers are held in the Finance Department.

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Auditor's Annual Report on Swale Borough Council

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December 2021



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We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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Appendices

A – The responsibilities of the Council

B – An explanatory note on recommendations

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary



Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendation made.

(Key for conclusion column: red for areas of significant weakness, amber for improvement recommendations identified, green for no issues noted)

Executive summary



Financial sustainability

Despite the uncertainty, and the challenges posed by COVID-19, the Council maintained a good financial outcome for 2020/21. The Council set a balanced budget for 2021/22 although this relies on the use of £1.2m of reserves. The Council intends to use further reserves to help address gaps in the medium term. As at 31 March 2021, the Authority held £22.2m of useable revenue reserves. Given its reserve position, the planned use of reserves is not of immediate concern. The Council faces pressure to identify savings in the years ahead.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council.

Further details can be seen on pages 7-10 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 16-17 of this report.



Opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 29th October 2021 following the Audit Committee meeting on 26th October 2021. The quality of the draft financial statements and the supporting working papers, presented for audit, continue to be of a good standard. Our findings are set out in further detail in the Audit Findings Report shared at the 26th October meeting.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements in relation to governance.

Further details can be seen on pages 13-15 of this report.

Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:

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Financial Sustainability

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



Improving economy, efficiency and effectiveness

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



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 7 to 20.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2020/21 and ongoing financial pressures

The covid-19 pandemic has been the largest peace time emergency seen in this country for many years. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in the district. While government grants have covered part of the general shortfall, councils have been left in a situation of greater financial uncertainty.

Throughout the huge uncertainty of last financial year, the Council worked to minimise expenditure in all areas and some of the capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the Helping our Communities page on the Council website giving up to date advice to address the impact of the pandemic on residents and starting the Swale Community Response to raise funds to support vulnerable people sheltering.

The Council set its budget for 2020/21 in February 2020, with the precepts for 2020/21 for County, Fire and Police services before the effects of the pandemic were realized. District councils have had to pay the precepts over, while collection rates have been down, which added pressure on cashflow.

The pandemic started in March and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. The Cabinet agreed the COVID-19 Recovery Plan in July 2020. At that time, it was projected that the Council would forego circa £4.1m in income and additional costs. The final outturn impact was assessed as being £3.893m with a revenue overspend on services of £2.914m. Non-specific government grants of £4.234m were received to support the Council with the shortfall. This means that there was a surplus in year leading to an increase in the general fund achieved in part by strong budgetary control and the receipt of government grants. This outcome will have positive benefits for the Council's financial resilience in 2021/22. A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget does still, however, expect a reliance on reserves and savings as recovery begins. Review of Council papers indicate the assumptions used for the financial planning for 2020/21 and 2021/22 are sound. We have seen no evidence that short term measures are being used to relieve current pressures.

Financial sustainability

2020/21 and ongoing financial pressures (continued)

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the current local government settlement only covers 2021/22. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed.

The Council has a detailed financial plan covering the years to 2023/24. Given the uncertainty of the financial regime, its plan has been drawn up on prudent assumptions on future income streams. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as council tax, business rates and the government funding settlement.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Financial plans are discussed at Council, Cabinet and Scrutiny Committee. The Council has a history of transparency in financial matters.

Financial Planning

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The Finance team is well established with significant experience of managing the Council's finances. From our knowledge, we consider that the Council has a positive financial culture and an appropriate 'tone from the top'. The ongoing management of the Council's financial position over recent years is evidence of this.

Budget holders receive monthly budget reports and take part in quarterly meetings ahead of reporting committee deadlines to ensure that information submitted is accurate. Finance and the senior management team carry out independent review of significant elements of the budget such as salaries and income so are aware of the position.

Financial sustainability

Financial Planning (continued)

The Council has a Revenue and Capital Plan which is regularly reviewed to reflect changing circumstances. The total value of the capital programme in 2021/22 is £18.5m of which SBC is expecting to fund £16.3m (with the balance coming from partnership funding). This investment is largely for increasing and improving the stock of affordable housing in the district, which is consistent with the Council's strategic vision. The capital strategy includes stating that any future borrowing must be linked to a specific project, rather than being generic. The Council does not have extensive borrowing currently. During the financial year the Council completed one of its major capital projects and is still planning to complete the others agreed so there is no indication that projects are being postponed, cancelled, or poorly managed.

The current corporate plan covers the period 2020 to 2023. The areas of focus are:

- Building the right homes in the right places and supporting quality jobs for all
- Investing in our environment and responding positively to global challenges
- Tackling deprivation and creating equal opportunities for everyone
- Renewing local democracy and making the council fit for the future

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. After years of savings at local authorities, the Council continually reviews all of its services to identify potential savings, including the level of statutory services provided while still meeting its obligations. However, being clear on discretionary spend in its financial planning and reporting, will contribute to its decision making as the Council seeks to balance its annual budgets (Recommendation 1).

Savings plans

As part of the 2021/22 budget setting, budgets were reviewed and changes to the budget were made adjusting for pressures, new initiatives, expected cost increases and income changes. The balanced budget was predicated on 'Resisting pressures' or savings of £1.1m, government support funding of £1m (in the form of the Covid Tranche 5 funding) and use of £1.2m of reserves.

The current medium term financial plan has highlighted a funding gap of £3.3m after 2021/22 over the period of the plan to 2023/24. The intention of the Council is to use reserves to cover the portion of this funding gap relating to 2022/23 but create a savings plan to balance the 2023/24 budget. As such a savings plan has not yet been prepared, a recommendation has been raised although it is not considered to be a significant weakness because management are aware of the matter and there is not currently an indication that the issue won't be resolved (Recommendation 2).

At 31st March 2021, the Council held a healthy level of useable reserves of £22.2m. Using the CIPFA Resilience Indicator 2021 tool, Swale is considered to be a low risk council regarding its reserves sustainability measure (level of reserves in comparison to net revenue expenditure). Given its reserves position, the expected use of reserves is not, therefore, of immediate concern. The Council has been prudent in its funding assumptions, the council tax base and any increase in rates.

Managing risks to financial resilience

2020/21 has been a unique year for financial management of dealing with a pandemic including the changing profile of demands on services. Within the corporate risk register, the Council has identified the risk of not balancing the budget (matching the delivery of services to funding levels). Ways in which the Council is managing this risk include budget monitoring, the MTFP and use of reserves. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Cabinet meetings as well as at the Scrutiny Committee. A list of financial risks is included in budget papers sent to members when setting the Council's budget. It is evident that the Council has built up its reserves to provide for such circumstances.

Financial sustainability

Managing risks to financial resilience (continued)

As the Council emerges from the pandemic, and the ‘new normal’ begins to be established – crucially, a normal which once again comes with financial constraints – the organisation should assess what covid working patterns and arrangements should continue in the post pandemic world. Based on the work performed by the Scrutiny Committee, there is sufficient challenge and consideration of alternative scenarios and mitigating strategies.

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Medium term financial planning

We found a robust financial planning process which ties in with corporate objectives. The annual treasury management strategy incorporates financing costs based on the capital programme projections. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. The Covid-19 pandemic has made it more difficult to predict future costs and demand as the Council has experienced a ‘difficult-to-predict-and-plan-for’ year. However, in emerging from the pandemic, a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will be equally critical to ensure that budget holders, and the Council as a whole, on signing up to future budgets, are held to account for any future failure to deliver the budgets agreed to. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead.

In 2020/21, an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by the Kent Resilience Forum (KRF), of which Swale Borough Council is a member. The Council has paid out millions of pounds in Covid grants, supported local residents and business and providing advice to business. Planning for 2021/22 has been challenging as the pandemic has provided increased uncertainty around future funding. In November 2020, a one-year funding settlement was announced and the next year’s funding settlement is due for announcement shortly at the time of writing.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of serious weaknesses. We have identified several opportunities for improvement which are set out overleaf.

Improvement recommendations



Financial sustainability

Recommendation 1

Recommendation Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.

Why/Impact This would help residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.

Summary findings No distinction is made in the financial information reported to decision makers between statutory and discretionary spending.

Management Comment The issue is deeper than statutory and discretionary. The council budgets will consider the level of all services provided and how it can meet statutory commitments while achieving a balanced budget in the medium term.

Recommendation 2

A savings plan based on the medium term financial plan budget projections to 2023/24 will need to be developed.

To identify how the Council can reduce the funding gap without excessive reliance on reserves which can only be used once.

The medium term budget strategy is to use reserves. This is reasonable given the current uncertainties and level of reserves at the Council. It is not, however, sustainable in the long term. Management is aware of this and has agreed the approach with Cabinet.

Given the current uncertainty around government settlements, such a plan has not yet been developed but will be.



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth to power.

The Annual Governance Statement for 2020/21 notes that the governance framework ‘comprises the systems and processes, and culture and values, by which the Council is directed and controlled’ and that ‘the system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level’.

Risk Management was reviewed by Internal Audit in 2020/21 which concluded that the procedures in place ‘provide sound assurance’.

Based on our review of your risk management processes, we concur with this view. The risk management framework is reviewed annually (most recently in March 2021) and there is separate guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, assessing, evaluating, escalating, allocating and monitoring risk.

The Council Strategic Risk Register is reported annually to the Audit Committee. It was last reported to the Audit Committee in March 2021. The Strategic Risk Register for 2020/21 contained 13 risks, allowing adequate review of those threats to Council objectives. Risks are scored and the risk register contains three “red” risks after the consideration of mitigating controls.

The risk register format is clear showing current and mitigated risk score, risk owner, consequences, current mitigations and actions required. A risk information report is shared with cabinet bi-annually as per the risk management framework.

Governance

Internal Audit services are provided by Mid-Kent Services – a partnership with other districts within Kent. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion provided to the Council by July 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit Committee periodically. The Head of Internal Audit Opinion concludes that the internal control, governance and risk management arrangements are effective and give sufficient assurance. Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

The annual work plans for internal audit are currently approved and overseen by the Audit Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

Leadership and committee effectiveness/decision making

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

All major policy decisions are taken to Policy Committees in accordance with the Council's Constitution. All reports must be reviewed by Legal and Finance - to ensure relevant information is provided, before going to Committee. It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. Alternative options are presented to cabinet before decision making and have their own section in report papers. For example, in October 2020 Cabinet agreed to establish a housing company, Swale Rainbow Homes Ltd, but only after in March 2020 other legal delivery mechanisms for housing were presented.

The Council is engaged and provides appropriate levels of scrutiny to external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to material errors in draft accounts, failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as reported in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the effects of the pandemic response have been deliberate and thought out.



Governance

Budgetary control

The Finance team is duly qualified, stable and experienced. The S151 Officer during the financial year 2020/21 left the position post year end but has been replaced promptly. The new Director of Resources is appropriately part of the Management Team. We have no concerns over the turnover of officers.

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Swale and without a concerted effort across the council the year end position could have been troubling for financial sustainability.

Treasury management strategy and performance of investments and borrowings is reported to the audit committee.

We consider budget management arrangements to be robust and we have found no areas of concern during our work.

Budgetary Setting Process

The Government financial landscape has made this a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council informs us that arrangements are in place with the Council to model the uncertainties in the system notwithstanding the factors that are outside the Council's control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the council. Given the approach, we have seen evidence of the scenario planning.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, but the effects are minimal given the current rates of return on investments.

Governance

Monitoring and ensuring appropriate standards

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Officer and Member conduct is set in codes of conduct within the constitution. Members interests are published on the Council website. We are satisfied that these are up to date based on our review. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and sent to all Members and Senior officers for their completion.

There is a member protocol on gifts benefits and hospitality. The gifts and hospitality register are retained by the Monitoring Officer and is available for inspection on request.

Good governance requires an appropriate culture. As an intangible, regularly testing of the culture of the Council is good practice. One way of testing the culture is through staff surveys. We understand that a comprehensive staff survey was carried out in late 2021 with results expected in early 2022.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified an opportunity for improvement which is set out overleaf.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

This year has been incredibly challenging one for public services as a whole and Swale are no different. Kent was the first to see the Alpha variant of Covid-19 and this has meant the county has been particularly hard hit by the pandemic. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Swale played its part in the county wide effort to support residents and local business. Local Government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

In respect of the performance management of the Corporate Plan objectives, Swale's Cabinet, Scrutiny and Strategic Management team monitor 49 indicators (33 with targets) and have monthly performance reports demonstrating performance publicly. The Scrutiny Committee reviews a quarterly and annual Performance Management Report. The outcome for the 2020/21 annual report was 21 of the targeted KPIs met their target with all others being inspected and considered further including the 4 of the 12 missed targets that were partially met or amber rated.

The Council has a Data Quality Standard which is reviewed annually. The standard sets out the Council's data quality standards, roles and responsibilities for data quality and the Council's expectations in regard to system and processes.

Benchmarking has been used to assess performance compared to similar and neighbouring authorities through the Mid Kent Planning Support Service. It has also been used to compare investment and borrowing information. Swale works with a number of peer networking groups to consider best practice. There isn't however a formal or structured consistent approach to benchmarking. Whilst we acknowledge that there are limitations to benchmarking, it can be a useful starting point to understand areas of high unit costs or low outcomes compared to other like councils. For example, Swale has high housing services costs per head compared to other councils that appear to be driven by high bed and breakfast expenditure (Recommendation 3).

Evaluation of services

The Corporate Plan is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Plan runs until 2023.

The arrangements for considering lower cost alternatives for delivery of services are considered sufficient by the auditor based on the 'options for delivery' reporting presented to Cabinet when a new contract is required – different scenarios and alternatives are reported for scrutiny and decision making.

Improving economy, efficiency and effectiveness

Partnership working

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. Partnerships have been entered into with neighbouring councils in Kent to provide key services such as waste management, building control and internal audit.

The Council also works with other agencies to co-ordinate and improve services and value for money.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Procurement

Procurement support services across the organisation delivering front line and back-office services. The Council has a procurement policy and forward plan strategy awaiting approval in late 2021. The strategy covers partnering, e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. This update is appropriate Given recent events and the adoption of a revised Corporate Strategy in 2020, and the introduction of the National Procurement Strategy for Local Government in England in 2018.

There is a system in place to capture any contracts not following procurement policy (quarterly reporting to the SMT with a log of all contracts and how they were procured including any waivers used). No issues identified.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements. In conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We have identified an opportunity for improvement which is set out overleaf.



Improvement recommendations



Improving economy, efficiency and effectiveness (recommendation 3)

Recommendation	Consideration should be given to a formal or structured consistent approach to benchmarking, appropriate to the Council’s circumstances, to identify areas of potential high unit costs or low outcomes for further investigation.
Why/impact	Benchmarking will allow the Council to learn from “best in class” councils and improve services.
Summary findings	Swale is a member of service network groups in Kent for sharing best practice and there is informal review of neighbouring local authority fees and charges but there is not a formal benchmarking process in place.
Management comment	Formal benchmarking data does not always provide a like for like comparison. The current benchmarking process and change in senior management positions has given the council sufficient opportunity to assess best practice. Swale is also part of shared service partnerships which help internal audit identify other performance improvement points. Management considers that Swale has a good record of picking up good practice from other councils through networking.



The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

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COVID-19 arrangements

On 15 March 2020 based on epidemiological forecasts, the UK government said everyone should avoid all "non-essential" travel and contact with others, avoid crowds, and work from home if possible. Those with symptoms, and their household, were asked to self-isolate. Pregnant women, people over 70, and those with certain health conditions were asked to self-isolate for longer. On 20 March 2020, the UK governments closed all schools, restaurants, pubs, indoor entertainment venues and leisure centres, with some exceptions. On 23 March 2020, the government imposed a lockdown on the whole population, banning all "non-essential" travel and contact with people outside one's home, and shutting almost all businesses, venues, facilities, amenities and places of worship. People were told to keep apart in public. Police were given power to enforce the lockdown, and the Coronavirus Act 2020 gave the government emergency powers including local authorities.

In response to the covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Kent and Medway went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

To manage the response, the Council initiated daily "Business Continuity" (BC) virtual meetings, with an extended management team to include key staff leading on a number of themes relating to service delivery and to initiate any response to requests from the government and the Kent Resilience Forum.

The Leader, Deputy Leader and Cabinet Member with responsibility for emergency planning had virtual meetings at least weekly with the Chief Executive and Deputy Chief Executive.

In March there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation, some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income of immediately apparent changes was also carried out and reported to management and members.

COVID-19 arrangements

COVID-19 arrangements (continued)

The pandemic has had significant financial effect on the Council predominately through the loss of income from such things as car parking. However, operational changes have led to a change in expenditure profile which have partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

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There is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of 95% of the budgeted position will be funded by Government Grant.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates through reports to Cabinet.

Conclusion

Our review has not identified any significant weaknesses in the Authority's VFM arrangements for responding to the Covid-19 pandemic.



Opinion on the financial statements



Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 29th October 2021 following the Audit Committee meeting on 26th October.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline. The quality of the draft financial statements and the supporting working papers, continue to be of a good standard.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We will complete our work on the Whole of Government Accounts consolidation pack in line with the national deadline.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



Other opinion/key findings

We did not identify any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 26th October 2021.

Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 2020/21 Audit Findings Report, Appendix B.

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

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Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

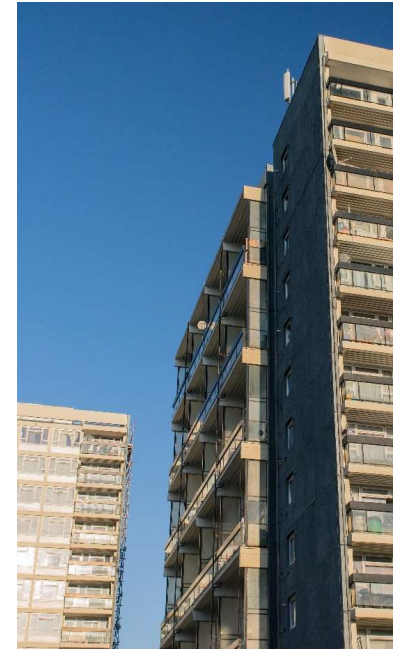
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

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Type of recommendation	Background	Raised within this report		Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No		N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No		N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	FS 3 Es	p. 11 p. 18

